AB Vilniaus degtinė

Annual Financial Statements as on the 31st December 2010

Contents

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
Danas Kerbelis
Juozas Daunys
Audra Jauniškienė
Dalius Rutkauskas

Auditor

UAB Rimess

Banks

AB DnB NORD bankas

Lithuanian branch of AS UniCredit Bank
AB SEB Bankas
AB Swedbank

Annual Statements by the Management

Earlier this day, the Management has discussed and approved annual Financial Statement and Annual Performance Report of the Management, as well as has signed them.

Financial Statements have been compiled in accordance with International Financial Accounting Standards adopted for application in the European Union. In our opinion, the accounting principles applied are proper and Financial Statements disclose true and correct, in all material aspects, situation.

We hereby recommend the Financial Statements to be approved by the General Shareholder Meeting.

Vilnius, dated this 23rd day of March 2011

Board:

Darius Žaromskis
(Chairman)

Audra Jaunškienė

Danas Kerbelis

Dalius Rutkauskas

Juozas Daunys

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AB VILNIAUS DEGTINĖ

Report on the financial statements

We have audited the accompanying financial statements of AB Vilniaus degtinė, which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (hereinafter – the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the legal acts of the Republic of Lithuania regulating the financial accounting and preparation of the financial statements, and with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 present fairly, in all material respects, the financial position of AB Vilniaus degtinė as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with the legal acts of the Republic of Lithuania regulating the financial accounting and preparation of the financial statements, and with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the accompanying annual report of AB Vilniaus degtinė for the year 2010 and have not identified any material inconsistencies between the financial information included and the audited financial statements.

Director auditor
Genadijus Makuševas
Auditor's certification No. 000162

23 March, 2011
40B A. Goštautas str., Vilnius

UAB Rimess
Audit company's certification No. 001332

Statement of Financial Position

As on the 31st December

In LTL	Notes	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	14	28,022,090	21,563,651
Intangible assets	15	12,956,529	13,922,486
Financial assets	16	3,615,486	0
Total non-current assets		**44,594,105**	**35,486,137**
Current assets			
Inventories	17	7,246,521	7,689,344
Prepayments and future expenses	18	228,521	1,280,152
Trade receivables	19	24,135,874	28,864,366
Other receivables	20	439,951	3,659,967
Other current assets		0	0
Cash and cash equivalents	21	49,528	82,098
Total current assets		**32,100,395**	**41,575,927**
TOTAL ASSETS		**76,694,500**	**77,062,064**

Notes on pages 10–44 are an integral part of these financial statements.

Statement of Financial Position (cont‘d)

As on the 31st December

In LTL	Notes	2010	2009
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	24,408,431	24,408,431
Legal reserve	22	2,440,843	2,440,843
Retained earnings (loss)		12,111,073	12,446,994
Total equity		**38,960,347**	**39,296,268**
Non-current liabilities			
Interest bearing loans and borrowings	24	5,531,318	7,100,873
Governmental grants	25	4,137,227	0
Deferred income tax liability	12	785,750	851,598
Total non-current liabilities		**10,454,295**	**7,952,471**
Current liabilities			
Interest bearing loans and borrowings	24	13,258,187	13,160,058
Trade payables		4,553,753	4,191,269
Income tax payable		0	0
Other payables	26	9,467,918	12,461,998
Total current liabilities		**27,279,858**	**29,813,325**
Total liabilities		**37,734,153**	**37,765,796**
TOTAL EQUITY AND LIABILITIES		**76,694,500**	**77,062,064**

Notes on pages 10–44 are an integral part of these financial statements.

Statement of Comprehensive Income

As on the 31st December

Litais	Pastabos	2010	2009
Sales revenue	5	**41,829,018**	**47,678,504**
Cost of sales		(25,646,721)	(25,507,834)
Gross profit	5	**16,182,297**	**22,170,670**
Other income	6	508,776	273,729
Sales and distribution expenses	7	(6,252,281)	(8,722,641)
Administrative expenses	8	(10,283,885)	(12,113,619)
Other expenses	6	(35,963)	(50,237)
Result from operating activities		**118,944**	**1,557,902**
Financial income	10	245,741	157,804
Financial expenses	10	(766,454)	(1,172,297)
Profit before tax		**(401,769)**	**543,409**
Corporate income tax	11	65,848	182,902
Profit for the period		**(335,921)**	**726,311**
Basic and diluted earnings per share	23	(0.01)	0.03
Other comprehensive income (expenditure)		0	0
Total comprehensive income (expenditure), less taxes		**(335,921)**	**726,311**

Notes on pages 10–44 are an integral part of these financial statements.

Statement on Changes in Equity

In LTL	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total shareholders‘ equity
Capital and reserves as of 1 January 2009		**24,408,431**	**2,440,843**		**11,720,683**	**38,569,957**
Profit for 2009					726,311	726,311
Capital and reserves as of 31 December 2009		**24,408,431**	**2,440,843**		**12,446,994**	**39,296,268**
Profit for the reporting period					**(335,921)**	**(335,921)**
Capital and reserves as of 31 December 2010	22	**24,408,431**	**2,440,843**	**0**	**12,111,073**	**38,960,347**

Notes on pages 10–44 are an integral part of these financial statements.

Cash Flows Statements

In LTL	2010	2009
Profit (loss) for the period	(335,921)	726,311
Depreciation and amortisation	3,901,728	3,989,672
Impairment on construction in progress	0	(115,958)
Impairment of trade receivables and other receivables	(457,089)	(465,211)
Impairment of inventories	0	0
Net financial expenses	318,741	901,632
Gain (loss) on disposal of non-current assets	(89,937)	(15,799)
Income tax expenses	(65,848)	(182,902)
Net cash flows from ordinary activities before changes in working capital	3,271,674	4,837,745
Change in inventories	442,823	1,805,884
Change in prepayments	1,051,631	(511,443)
Change in trade receivables and other receivables	5,399,902	11,303,519
Change in trade payables and other payables	(2,417,482)	(7,135,563)
Net cash flows from operating activities	4,476,874	5,462, 397
Income tax paid	144,249	(56,544)
Net cash flows from operating activities	**7,892,797**	**10,243,598**
Interest received	0	0
Proceeds from disposal of non-current assets	205,630	43,448
Acquisition of property, plant and equipment	(8,724,189)	(1,231,469)
Acquisition of intangible non-current assets	(8,715)	(21,000)
Repayment of loans	0	0
Loans granted	(511,015)	(680,201)
Net cash flows from investing activities	**(9,038,289)**	**(1,889,222)**
Repayment of loans	(1,866,739)	(1,875,463)
Loans received	0	0
Increase (decrease) of other financial liabilities	(223,447)	(4,904,788)
Financial lease payments	(367,975)	(457,392)
Grants received	4,137,227	0
Interest paid	(566,144)	(1,087,024)
Dividends paid	0	0
Net cash flows from financing activities	**1,112,922**	**(8,324,667)**
Net cash flows from operating, investing and financing activities	**(32,570)**	**29,709**
Cash and cash equivalents at the beginning of the period	**82,098**	**52,389**
Cash and cash equivalents at the end of the period	**49,528**	**82,098**

Notes on pages 10–44 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. The company does not have any representative offices.

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	2,384,377	1	2,384,377
Other minor shareholders	2,914,579	1	2,914,579
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 169 staff members as on 31 December 2010 (193 staff members as on 31 December 2009).

2 Summary of significant accounting principles

Atitikimas nustatytiems standartams

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

The Board approved the Company‘s Annual Financial Statements and the Management‘s Annual Report and signed them on the 23th March 2011.

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 within the period ended on the 31 December 2010 and did not have them as of the day of the statement.

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)

Recognition and measurement (cont'd)

When useful service time of non-current assets' units differ, they are accounted as separate fixed assets.

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. All of that is considered as operational lease.

Inventories

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

The costs of inventories is determines based on FIFO principle.

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

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.

Notes

2 Summary of significant accounting principles (cont’d)

Inventories (cont’d)

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 (plastic crates for placing the bottles of alcoholic beverages) to the operating expenses immediately after it is taken for use.

Governmental grants

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

Grants are related to assets.

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

Impairment

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

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

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

An impairment loss is recognised wherever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Cash generating unit is the smallest cash generating asset group generating cash flows independent form 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

Notes

2 Summary of significant accounting principles (cont'd)

Calculation of recoverable amount (cont'd)

rate, i.e., the effective interest rate computed at the initial recognition of these financial assets. Receivables with short duration are not discounted..

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

Reversals of impairment

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

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 chares**.** Liabilities against retired former employees of the company are fulfilled by the State.

Provisions

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

Revenue

Sales of goods

Revenue from the sale of goods is recognised in the income statement when significant risk and ownership is transferred to the buyer, when it is probable that economic benefits associated with the transaction will flow to the Company and the amount of the revenue can

Notes

2 Summary of significant accounting principles (cont’d)

Sales of goods (cont’d)

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 applying the effective interest rate method. The financial costs are distributed over the whole period of financial lease, so as to produce a constant periodic interest rate on the remaining balance of the liability.

Net financing costs

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

Notes

2 Summary of significant accounting principles (cont'd)

Net financing costs (cont'd)

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.

Corporate income tax

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

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

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

Deferred tax asset is recognised only to the extent it is likely that the future taxable profits will be available against which the assets can be utilised. Deferred tax asset is revised on each day of provision of financial statements and is reduced to the extent it is no longer probable that the related tax benefit will be realised.

Segment reporting

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

Notes

2 Summary of significant accounting principles (cont'd)

Earnings per share

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

The influence of application of new standards, amendments of the standards in force and new explanations on financial statements

Amendments and explanations of standards in force applicable in 2010.

Amendment of IFRS 1 *"First time Application of International Financial Reporting Standards"* (coming into force in the year starting on or after the 1 January 2010).
Amended standard does not contain some outdated instructions for the transitional period and contains several immaterial amendments of wordings.
These amendments are not relevant to the Company.

Amendment to IFRS 2 "*Share-based Payment*" – Group cash-settled share-based payment transactions (applicable since the 1 January 2010 or later);
These amendments are not relevant to the Company.

Amendment of IFRS 3 "*Business Combinations*" and IAS 27 *"Consolidated and Separate Financial Statements"* (coming into force in the year starting on or after the 1 July 2009).
Amendment of IFRS 3 covers different amendments in the accounting of business combinations that affect calculation of goodwill: simplifies its calculation when acquiring shares in parts, and determines which acquisition-related costs cannot increase the amount of goodwill. Amendment of IAS 27 specifies that changes in the ownership interest in subsidiary (without losing control over it) shall be accounted as transactions with owner's equity.
These amendments are not relevant to the Company.

Amendment of IAS 39 *"Financial Instruments. Recognition and Measurement"* – Eligible Hedged Items (coming into force in the year starting on or after the 1 July 2009).
This amendment defines specific cases of part of risks, inflation attribution risk and insuring against them.
This amendment is not relevant to the Company.

On the 16 April 2009, Compendium of Different Standards and Their Interpretations was published; it has been developed based on annual IFRS quality improvement projects (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16). This is aimed at, first of all, eliminating inadequacies and defining concepts in use (application of most supplementations will start on the 1 January 2010 or later),

IFRIC 12 *"Service Concession Arrangements"* (coming into force in the year starting on or after the 30 March 2009).

This interpretation explains how managers of service concessions should apply IFRS in force with regard to accounting rights/obligations assumed under service concession arrangements. The present amendment has in no way affected the Company's financial statements.

IFRIC 15 "*Agreements for the Construction of Real Estate*" (coming into force in the year starting on or after the 1 January 2010)
This interpretation addresses when and how should revenue from sale of real estate and construction services be accounted in case when the constructor and the buyer enter into the agreement while construction of real estate is still in progress.
This interpretation is not relevant to the Company.

IFRIC 16 "*Hedges of a Net Investment in a Foreign Operation*" (coming into force in the year starting on or after the 1 July 2009)
This interpretation addresses the issues of accounting of hedges of a net investment in a foreign operation.
This interpretation is not relevant to the Company.

IFRIC 17 *"Distributions of Non-cash Assets to Owners"* (coming into force in the year starting on or after the 1 November 2009)
This interpretation addresses the issues of accounting dividends, when they are paid to the shareholders in other than cash assets.
This interpretation is not relevant to the Company.

IFRIC 18 "*Transfers of Assets from Customers*" (coming into force in the year starting on or after the 1 November 2009).
This interpretation addresses the provisions concerning accounting methods applied by the company in the case when the company receives from a customer movable or immovable assets or equipment, which shall be used by the company for the purpose of granting access to supply of products and services (e.g. electricity, gas, water, etc.).
This interpretation is not relevant to the Company.

Standards and their interpretations announced by the International Accounting Standards Board but not yet adopted by the EU

Amendment of IAS 32 *"Financial Instruments. Reporting"* – grouping of rights emissions (coming into force in the year starting on or after the 1 February 2010).
The amendment explains accounting of certain rights, when issued instruments are expressed in the currency other than the issuer's functional currency. In case if such instruments are issued for a fixed amount of cash pro rata to all existing shareholders of the issuer, they should be accounted as equity, even though the price of their use is expressed in other than the issuer's functional currency.
This amendment is not relevant to the Company.

Amendment to IAS 24 "Related Party Disclosure" – disclosure requirements applicable on companies related to governmental authorities and explanation of definition of related parties are simplified (will be applied since the 1 January 2011 or later),
This amendment is not relevant to the Company.

1-asis TFAS pataisa „Ribota lyginamosios informacijos atskleidimo pagal 7-ąjį TFAS išimtis pirmą kartą standartus taikantiems ūkio subjektams“ – papildomos išimtys standartą taikantiems pirmąjį kartą (taikomas ne vėliau kaip nuo pirmųjų finansinių metų, prasidedančių po 2010 m. birželio 30 d.).

Šis papildymas nėra aktualus Įmonei.

IFRIC 14 (supplementation) “IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and Their Interaction*”* – prepayments of a minimum funding requirements (will be applied since the 1 January 2011 or later).
This interpretation is not relevant to the company.

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (applicable since the 30 June 2010 or later).
This interpretation is not relevant to the company.

On 10 May 2010, the International Accounting Standards Board (IASB) published **Improvements to International Financial Reporting Standards**, hereinafter ‘the Improvements’, in the framework of its annual improvement process which aims at streamlining and clarifying the international accounting standards. The majority of the amendments are clarifications or corrections of existing International Financial Reporting Standards (IFRS) or amendments consequential to changes previously made to IFRS (most of the Amendments come into force from 30 June 2010 and from 31 December 2010). Approved at 9 February 2011.

Standards and their interpretations announced by the International Accounting Standards Board but not yet adopted by the EU

Amendments to IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters“ (applicable since the 30 June 2011 or later).

Amendments to IFRS 7 “Disclosures—Transfers of Financial Assets“. These amendments created new disclosure requirements in relation to derecognised financial assets (applied since 30 June 2011 or later).

Amendments to 9 IFRS “Financial Instruments“ (applied since 1 January 2013 or later). It adresses the classification and valuation of financial asset is adressed.

Amendments to IAS 12 “Deferred Tax: Recovery of Underlying Assets“ (applied since December 2011 or later) .

Company’s management supposes that application of the standards, amendments and interpretations in the future will not have material impact on its financial statements.

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.

Management of the Company, considering forecasts and budget, borrowing need, fulfilment of obligations, products and markets, financial risk management, having performed operation continuity assessment, considers that there are no obscurities in the assessment of continuity of the Company’s activities or doubts concerning its further operation.

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

Impairment losses on receivables

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

Management 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 loses on construction in progress

Construction in progress is related with the construction of soft drinks production facilities discontinued in 1994 due to the change in strategic plans of the Company. 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. Depreciation of the construction in progress is calculated since 2009.

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 Adjustments for previous periods

Aiming at revealing the Company‘s financial condition and operating results in a more fair manner, in 2010 the Company revised its selling revenue and has deducted marketing discounts provided to its buyers from that amount.
Following the principle of accounting consistency, the Company has also revised comparative information for the year 2009. Due to revised comparative figures, selling income reflected in the Statement on Comprehensive Income for 2009 decreased by LTL 5,521,124. The Company‘s gross profit and selling expenses were reduced by the same amount.

Notes

5 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 2010 are presented below:

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	34,278,206	5,214,675	108,312	2,227,825	41,829,018
Gross profit	15,551,918	387,432	42,903	200,044	16,182,297

Revenue and gross profit for 2009 are presented below:

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	43,456,017	3,067,050	81,896	1,073,541	47,678,504
Gross profit	21,655,657	314,670	34,885	165,458	22,170,670

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-December 2010, sales to EU and foreign markets amounted to LTL 3,779,335 (in January-December 2009 they were LTL 2,274,649). Considering the share of product sales in foreign markets in total revenue, no geographical segments are distinguished in the Company.

Notes

In LTL	2010	2009
6 Income and expenses of other activities		
Lease of premises	109,596	108,901
Income form sales of materials and spare parts	152,750	68,550
Result of the sales of non-current assets	162,890	15,951
Other income	83,540	80,327
Total other income	508,776	273,729
Other expenses	35,963	50,237
Loss on sales of materials and spare parts	0	0
Loss of sales of non-current assets	0	0
Total other expenses	35,963	50,237
Net income and expenses of other activities	**472,813**	**223,492**

In LTL	2010	2009
7 Sales and distribution expenses		
Advertising expenses	3,987,118	6,284,198
Salaries and social security	1,125,841	1,276,093
Transportation expenses	478,503	560,202
Market research expenses	115,422	194,308
Packaging expenses	67,968	55,222
Other	477,429	352,618
Total sales and distribution expenses	**6,252,281**	**8,722,641**

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

Notes

	In LTL	2010	2009
8	**Administrative expenses**		
	Salaries and social security	3,485,553	4,433,001
	Operating and other taxes	1,192,989	1,414,204
	Repairs and maintenance	632,910	387,484
	Amortisation	974,672	999,356
	Depreciation	1,128,680	1,190,078
	Consulting and training expenses	601,821	1,458,998
	Including: audit provided by the Law	53,519	53,519
	audit company‘s tax consultations	0	1,400
	Maintenance of cargo vehicles	352,910	280,775
	Security expenses	363,340	402,911
	Representation expenses	17,814	38,739
	Sponsorship and other	15,400	29,000
	Communications and IT maintenance expenses	140,528	175,630
	Utilities	283,437	271,220
	Impairment of construction in progress	0	(115,958)
	Impairment of inventories	0	0
	Other	1,093,831	1,148,181
	Total administrative expenses	**10,283,885**	**12,113,619**

	In LTL	2010	2009
9	**Personnel expenses**		
	Wages and salaries	4,914,665	6,064,728
	Compulsory social security contributions	1,524,446	1,879,903
	Total personnel expenses	**6,439,111**	**7,944,631**

Personnel expenses for 2010 and 2009 include change in accrued vacation compensations. Redundancy pays with social security taxes for 2010 amounted to LTL 339,419.

Personnel expenses for 2010 include wages and salaries for the management (including compulsory social security contributions) in the amount of LTL 558,152 (wages and salaries for the management for 2009 – LTL 721,105).

No loans were issued to the management as on the 31st December 2010 and 2009.

Average number of managers working for the Company in January-December 2010 and 2009 was 5.

Notes

In LTL		2010	2009
10	**Financial income and expenses**		
	Interest income	245,741	157,050
	Other income	0	754
	Total financial income	245,741	157,804
	Interest on loans and lease liabilities	588,084	1,056,609
	Foreign exchange loss	3,989	0
	Other	174,381	115,688
	Total financial expenses	766,454	1,172,297
	Financial income and expenses, net	**(520,713)**	**(1,014,493)**

In LTL		2010	2009
11	**Corporate income tax expenses**		
	Current tax	0	0
	Change in deferred income tax	(65,848)	(182,902)
	Total income tax expenses	**(65,848)**	**(182,902)**

Valid tax rate verification is as follows:

In LTL	2010		2009	
Earnings before tax		(401,769)		543,409
Corporate ingome tax, applying valid rate	(15.0%)	(60,265)	20.0%	108,682
Deducted amount of charity expenses	0.6%	2,310	0.6%	3,500
Representation expenses that do not reduce taxable earnings	0.6%	2,246	0.5%	2,921
Value added tax that does not reduce taxable earnings	1.0%	3,959	1.6%	8,490
MTEP labour costs	(14.0%)	(56,358)	(15.2%)	(82,892)
Other expenses that do not reduce taxable earnings	10.5%	42,260	8.4%	45,802
Impact of changed corporate income tax rate	0	0	(49.6)	(269,405)
	(16.3%)	**(65,848)**	**(33.7%)**	**(182,902)**

Notes

12 Deferred tax

In LTL	2010 Temporary differences	2010 Deferred tax (15%)	2009 Temporary differences	2009 Deferred tax (15%)
Impairment of other receivables	496,482	74,472	832,923	124,938
Impairment of trade receivables	115,428	17,314	236,075	35,411
Impairment of construction in progress	668,577	100,287	573,066	85,960
Impairment of inventories	0	0	0	0
Accrued social security expenses for vacation reserve	110,404	16,561	116,191	17,429
Tax losses	1,891,832	283,775	488,495	73,274
Total deferred tax asset		**492,409**		**337,012**
Difference in depreciation of property, plant and equipment	(2,654,326)	(398,149)	(3,037,102)	(455,565)
Difference in amortisation of intangible assets	(5,455,867)	(818,380)	(4,364,694)	(654,704)
Carrying value of non-current assets that are subject to investment relief	(410,868)	(61,630)	(522,272)	(78,341)
Total deferred tax liability		**(1,278,159)**		**(1,188,610)**
Net deferred tax		**(785,750)**		**(851,598)**

Starting from January 2010, current income tax rate is reduced to 15% (in 2009 it was 20%).

Change in the deferred tax may be divided as follows:

In LTL	2010	2009
Deferred tax liability as of January 1	(851,598)	(1,034,500)
Deferred tax change	65,848	182,902
Deferred tax liability as on December 31	**(785,750)**	**(851,598)**

Notes

13 Corporate income tax

In LTL	2010	2009
Overpaid income tax (liability) as of 1 January	216,969	160,425
Income tax for the period	0	0
Set-off against underpayment of other taxes	216,969	0
Income tax paid	72,720	56,544
Overpaid income tax (liability) as on 31 December	**72,720**	**216,969**

Notes

14 Property, plant and equipment

In LTL	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Construction in progress	Other tangible assets	Total
Cost as of 1 January 2009	17,854,268	17,381,057	1,576,707	2,380,695	2,395,792	3,510,030	45,098,549
Additions	387,715	534,332	33,500	51,360	254,146		1,261,053
Disposals	0	(128,582)	(389,158)	(139,376)	0	0	(657,116)
Reclassifications	4,155,622	6,447	0	0	(652,039)	(3,510,030)	0
Cost as on 31 December 2009	22,397,605	17,793,254	1,221,049	2,292,679	1,997,899	0	45,702,486
Accumulated depreciation as of 1 January 2009	7,132,540	11,408,026	900,823	1,859,042	593,513	0	21,893,944
Depreciation for the year	723,519	1,742,490	199,832	221,204	103,271	0	2,990,316
Impairment loss	0	0	0	0	(115,958)	0	(115,958)
Disposals	7,760	(128,566)	(364,023)	(136,878)	(7,760)	0	(629,467)
Accumulated depreciation as of 31 December 2009	7,863,819	13,021,950	736,632	1,943,368	573,066	0	24,138,835
Net book value as of 31 December 2009	**14,533,786**	**4,771,304**	**484,417**	**349,311**	**1,424,833**	**0**	**21,563,651**
Cost as of 1 January 2010	22,397,605	17,793,254	1,221,049	2,292, 679	1,997,899	0	45,702,486
Additions	100,488	5,815,168	214,152	43,095	1,633,890	1,694,395	9,501,188
Disposals	(307,579)	(1,068,085)	(132,440)	(116,417)	0	0	(1,624,521)
Reclassifications	0	0	0	0	0	0	0
Cost as of 31 December 2010	22,190,514	22,540,337	1,302,761	2,219,357	3,631,789	1,694,395	53,579,153
Accumulated depreciation as of 1 January 2010	7,863,819	13,021,950	736,632	1,943,368	573,066	0	24,138,835
Depreciation for the year	741,033	1,732,321	202,853	155,338	95,511	0	2,927,056
Impairment loss	0	0	0	0	0	0	0
Disposals	(228,617)	(1,063,710)	(100,136)	(116,365)	0	0	(1,508,828)
Accumulated depreciation as of 31 December 2010	8,376,235	13,690,561	839,349	1,982,341	668,577	0	25,557,063
Net book value as of 31 December 2010	**13,814,279**	**8,849,776**	**463,412**	**237,016**	**2,963,212**	**1,694,395**	**28,022,090**

Notes

14 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. Since 2009, as the requirements of accounting standards have changed, depreciation shall apply on the construction in progress. Before 2009, depreciation was applied on the construction in progress and, accordingly, on quarterly basis, based on assessments by the management, the amount of depreciation was recognised as a loss of impairment.

The depreciation was distributed as follows:

In LTL	2010	2009
Cost of sales	1,604,865	1,562,227
Inventories	157,661	187,926
Administrative and other expenses	1,164,530	1,240,163
Total	**2,927,056**	**2,990,316**

Notes

15 Non-current intangible assets

In LTL	Patents, licences	Software	Other	Total
Cost as of 1 January 2009	181,206	529,371	18,913,672	19,624,249
Additions during the year	0	21,000	0	21,000
Disposals	(8,110)	(1,236)	0	(9,346)
Cost as of 31 December 2009	173,096	549,135	18,913,672	19,635,903
Accumulated amortisation as of 1 January 2009	181,206	444,239	4,097,962	4,723,407
Amortisation for the year	0	53,672	945,684	999,356
Disposals	(8,110)	(1,236)	0	(9,346)
Accumulated amortisation as of 31 December 2009	173,096	496,675	5,043,646	5,713,417
Net book value as of 31 December 2009	**0**	**52,460**	**13,870,026**	**13,922,486**
Cost as of 1 January 2010	173,096	549,135	18,913,672	19,635,903
Additions during the year	0	8,715	0	8,715
Disposals	(131,776)	(12,046)	0	(143,822)
Cost as of 31 December 2010	41,320	545,804	18,913,672	19,500,796
Accumulated amortisation as of 1 January 2010	173,096	496,675	5,043,646	5,713,417
Amortisation for the year	0	28,989	945,683	974,672
Disposals	(131,776)	(12,046)	0	(143,822)
Accumulated amortisation as of 31 December 2010	41,320	513,618	5,989,329	6,544,267
Net book value as of 31 December 2010	**0**	**32,186**	**12,924,343**	**12,956,529**

All amortisation expenses are included under operating expenses.

16 Financial assets

In LTL	2010	2009
Financial assets	3,615,486	0
Total financial assets	**3,615,486**	**0**

Long-term loan amounting to LTL 3,129,549 (EUR 906,380) was granted to an associated company and interest accrued thereon amounted to LTL 485,937 (EUR 140,737). The loan was granted at 8.5% fixed annual interest rate. Term of repayment of granted loans and interest – December 2015.

Notes

In LTL	2010	2009
17 Inventories		
Raw materials	4,472,447	4,897,033
Finished goods	1,790,775	1,821,418
Goods for resale	921,474	919,393
Work in progress	61,825	51,500
Total inventories	**7,246,521**	**7,689,344**

There were no inventories stored at third person`s place as on 31.12.2010.

In LTL	2010	2009
18 Prepayments and deferred expenses		
Prepayments to suppliers	28,518	1,076,617
Deferred advertising expenses	67,535	120,183
Deferred insurance and subscription	71,929	70,829
Other	60,539	12,523
Total prepayments and deferred expenses	**228,521**	**1,280,152**

In LTL	2010	2009
19 Trade receivables		
Trade receivables	24,251,302	29,100,442
Impairment allowance for bad debts	(115,428)	(236,076)
Net trade receivables	**24,135,874**	**28,864,366**

Itemization of trade receivables 31.12.2010	**Total debt**	**Debts that have not become due**				**Overdue debts**		
		Over 90 d.	**61 to 90 d.**	**31 to 60 d.**	**Up to 30 d.**	**Up to 90 d.**	**91 to 180 d.**	**181 and > d.**
Non-group companies‘	20,881,052		35,018	18,959,628	1,714,495	39,098		132,813
Debts of the group companies	3,254,822		60,131	99,479	2,964,097	21,463		109,652
Total:	24,135,874		95,148	19,059,107	4,678,593	60,561		242,465

Impairment of receivables for bad debts in 2010 decreased due to writing-off of a part of bad debts. Impairment change can be presented as follows:

In LTL	2010	2009
Impairment allowance for bad debts as of 1 January	(236,076)	(378,728)
Reverse of impairment allowance for bad debts	120,648	142,652
Impairment allowance for bad debts at the end of the period	**(115,428)**	**(236,076)**

Notes

20 Other receivables

In LTL	2010	2009
Loans granted	34,528	2,653,062
Prepayments to the Tax Inspectorate	302,480	297,480
Overpaid income tax	72,720	216,969
Amounts deposited for guarantee purposes	0	243,000
Other receivables	30,223	249,456
Doubtful receivables	496,482	832,923
Total other receivables before write-down allowance	**936,433**	**4,492,890**
Write-down allowance	(496,482)	(832,923)
Total other receivables, net	**439,951**	**3,659,967**

The prepayment to the Tax Inspectorate is a guarantee for payment of excise tax and exported production payments. Loans granted: loan of EUR 10,000 (LTL 34,528) to a related company (8.5 % fixed annual interest rate, maturity of the loans granted – December 2011).

Change in impairment allowance of receivables was as follows:

In LTL	2010	2009
Impairment allowance for bad debts and other receivables as of 1 January	**(832,923)**	**(885,209)**
Reverse of impairment allowance for bad debts	336,441	52,286
Impairment allowance for bad debts and other receivables at the end of the period	**(496,482)**	**(832,923)**

The debt of LTL 336,441 was written-off as the company went bakrupt.

Notes

21 Cash and cash equivalents

In LTL	2010	2009
Cash at bank and on hand	49,528	82,089
Total cash and cash equivalents	**49,528**	**82,089**

22 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. This reserve cannot be distributed.

23 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.

	2010	2009.
Number of shares	24,408,431	24,408,431
Net result for the period attributable to the equity holders, in LTL	(335,921)	726,311
Earnings per share, in LTL	**(0.01)**	**0.03**

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.

Notes

In LTL	2010	2009
24 Interest bearing loans and borrowings		
Non-current liabilities		
Bank loans	4,966,959	6,833,698
Financial lease (leasing) liabilities	564,359	267,175
Total non-current liabilities	**5,531,318**	**7,100,873**
Current liabilities		
Overdraft	10,771,867	0
Bank, other loans and financial lease	2,486,320	13,160,058
Total current liabilities	**13,258,187**	**13,160,058**
Total	**18,789,505**	**20,260,931**

Terms and repayment schedule:

In LTL	Total	Up to 1 year	1-2 years	2-5 years	Over 5 years
Overdraft of LTL 5,000,000 – 3-month fluctuating VILIBOR + 2.00%	4,932,737	4,932,737			
Loan of EUR 3,015,412 (LTL 10,411,615) – 3-month fluctuating LIBOR EUR+ 2.9%	6,833,698	1,866,739	4,966,959	0	0
Long-term overdraft of EUR 1,737,720 (LTL 6,000,000) – 3-month fluctuating EURIBOR + 2.7%	5,839,130	5,839,130			
Financial lease (leasing) – 6-month variable LIBOREUR+1% and 3-month variable EURIBOR + 3%	1,183,940	619,581	564,359		
Total financial liabilities	**18,789,505**	**13,258,187**	**5,531,318**	**0**	**0**

Notes

24 Interest bearing loans and borrowings (cont‘d)

Term of repayment of the long-term loan is 31 December 2015, of long-term overdraft (LTL 5,000,000 and EUR 1,737,720) – 31 August 2011.

Under financial lease agreements, the Company‘s assets consist of plant and equipment and vehicles. Financial lease terms are 1 to 3 years.

In 2009, the Company and the bank signed long-term crediting contract for the amount of EUR 1,736,272 and long-term financial liability limit contract for EUR 879,865.62. Long-term credit and financial liability limit are intended for financing of the Project “Using distillery refuse (broga) for the production of electric power“. Long-term credit repayment deadline: 31.12.2015, overdraft deadline: 31.12.2011.

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 29.

25 Governmental grants

In LTL	2010	2009
Balance value at the beginning of the period	0	0
Grants received	4,137,227	0
Used within the period	0	0
Balance value at the end of the period	**4,137,227**	**0**

The Company has received funds from EU Structural Funds under Priority 3 of the Cohesion Growth Action Program “Increasing the Effectiveness of Energy Production”. The support was granted for acquisition of non-current assets.

In LTL	2010	2009
26 Other payables		
Payable excise tax	5,938,245	6,887,932
Payable VAT	2,657,368	3,646,916
Accrued vacation expense and social security	465,562	488,751
Taxes payable	66,061	60,324
Accrued expenses	71,645	1,002,883
Other payables	269,037	375,192
Total other payables	**9,467,918**	**12,461,998**

Notes

27 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 loosing its good reputation.

The Company’s policy is to maintain sufficient cash to cover planned operating expenditure, including financial liabilities; such security does not cover the influence unforecastable force majeure (such as natural calamities). Moreover, the Company has concluded a contract for overdraft limited to EUR 1,737,720 and LTL 5,000,000.

Notes

27 Financial instruments (cont'd)

Market risk

Market risk is the risk that market price changes, e.g. foreign exchange rates or interest 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 December 2010, 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 did not have any material exposure in other foreign currencies as of 31 December 2010 and 31 December 2009.

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 2010.

Notes

28 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
PHP Wieslav Wawrzyniak	Belvedere group company
Moncigale S.A.S.	Belvedere group company
Gognac Gautiem	Belvedere group company
Marie Brizard&Roger Inten.	Belvedere group company
Marie Brizard Espagne	Belvedere group company
IOOO Galiart	Belvedere group company
Chais Beaucairois SAS	Belvedere group company
Domain Menada Sp. Z.o.o.	Belvedere group company
Darius Žaromskis	Shareholder
Arūnas Tuma	Shareholder

Notes

28 Related party transaction (cont'd)

Sales to and purchases from related parties during the reporting periods ended 31 December 2010 and 31 December 2009 are as follows:

Company	Type of transaction	Jan-Dec 2010	Jan-Dec 2009
Purchases from:			
Belvedere group companies	Purchase of services	640,348	2,561,411
Belvedere group companies	Purchase of raw materials	803,805	793,837
Shareholder	Purchase of services	309,600	309,600
Belvedere group companies	Purchase of non-current assets	0	35,506
Ultimate parent company	Purchase of inventories	24,070	33,622
Total purchases		**1,777,823**	**3,733,976**
Sales to:			
Belvedere group companies	Sales of production including excise tax	42,198,657	50,915,438
Parent company	Sales of production including excise tax	131,308	326,832
Parent company	Other income	0	0
Ultimate parent company	Other income	243,025	154,975
Belvedere group companies	Sales of services, etc.	147,505	104,043
Total sales		**42,720,495**	**51,501,288**
Excise tax		30,967,736	36,455,443
Total sales net of excise tax		**11,752,759**	**15,045,845**

Notes

28 Related party transactions (cont’d)

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

Company	31/12/2010	31/12/2009
Trade receivables		
From Belvedere group companies	3,155,343	4,717,184
From ultimate parent company	3,650,151	3,759,312
From parent company	99,479	91,610
Total trade receivables	**6,904,973**	**8,568,106**
Trade payables		
To Belvedere group companies	289,011	193,395
Total trade payables	**289,011**	**193,395**

Remuneration to the Company’s management is enclosed in Note 9 to the Financial Statements. Information on the loans granted to the associated company is provided in Note 16 and 20.

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

Notes

29 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	31/12/2010	31/12/2009
Carrying amount of pledged buildings and structures	10,894,956	11,720,502
Carrying amount of pledged trademarks	12,924,343	13,870,026
Carrying amount of pledged inventories	7,246,521	7,689,344

The Company has transferred to the Bank the existing and further monetary funds deposited on the accounts with AB DnB Nord bank and amounts receivable from its buyers, which were equal to LTL 24,135,874 as of 31 December 2010 (LTL 28,864,366 as of 31 December 2009), under the Claiming Right Transfer Agreement in order to secure fulfilment of its liabilities under the Crediting Agreement.

Short-term guarantee related to implementation of the project “Using distillery refuse (broga) for the production of electric power“ was issued to Lithuanian Business Support Agency. For the amount of the guarantee (LTL 1,264,000) funds of financial liabilities credit line issued by AB DnB NORD bank have been tied up by the Company.

With regard to credit liabilities against the bank, the Company has certain loan liabilities. The Company controls and fulfils its liabilities against the bank.

30 Fair value of financial instruments

Fair value is defines as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties 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.

Fair value of assets and liabilities provided in the balance sheet as of 31 December 2010 does not significantly differ from their carrying amount, except non-current real estate, the depreciated cost-price of which significantly differs from its fair value.

Financial assets as of 31 December 2010:

In LTL	Carrying amount	Fair value
Long-term loans granted and other receivables	3,615,486	3,615,486
Advance payments and expenditure of future periods	228,521	228,521
Trade debtors	24,135,874	24,135,874
Other amounts receivable	439,951	439,951
Cash and cash equivalents	49,528	49,528
Total	**28,469,360**	**28,469,360**

Notes

30 Fair value of financial instruments (cont'd)

Financial liabilities aso n the 31st December 2010:

In LTL	Carrying amount	Fair value
Loan and other amounts subjected to calculation of interest rate	18,789,505	18,789,505
Amounts payable to suppliers	4,553,753	4,553,753
Other amounts payable	9,467,918	9,467,918
Total	**32,811,176**	**32,811,176**

31 Events after the reporting period

On the 25 January 2011, the Company's Supervisory Board at its meeting recalled one of the members of the Board, Mr. Renaldas Barauskas, and replaced him with Mr. Juozas Daunys, Deputy General Director for AB Vilniaus degtinė.

There has been a number of articles in the press on possible bankruptcy of Belvedere Group. In the opinion of the Company's management, there is no actual threat to Belvedere Group with regard to the bankruptcy.

Annual Performance Report 2010

1. INFORMACIJA APIE BENDROVĘ

Company name	Stock company Vilniaus degtinė, hereinafter – AB Vilniaus degtinė
Legal form	Stock company
Date & place of registration	8 May 1995, Register Service of the Board of Vilnius city
Code	120057287
Registered office address	Panerių g. 47/2, LT-03202 Vilnius
Telephone	(8~5) 233 0819
Fax	(8~5) 231 5052
E-mail	vd@degtine.lt
Website	www.degtine.lt

Branch	Obeliai distillery
Branch address	Audronių village, Obeliai local authority, Rokiškis district
Telephone	(8~458) 78723
Fax	(8~458) 78723
Email	obeliai@degtine.lt

The company does not have any representative offices.

AB Vilniaus degtinė produces and sells vodka and liqueur products, other alcohol beverages, edible rectified, denaturated ethyl alcohol, and edible distilled ethyl alcohol, imports and sells alcohol beverages of other countries. Obeliai distillery, a branch of AB Vilniaus degtinė, produces edible distilled ethyl alcohol using rye. Once produced, distilled ethyl alcohol is delivered to AB Vilniaus degtinė for rectification and further production of alcohol.

2. INFORMATION ON THE COMPANY’S STATUTORY CAPITAL AND SECURITIES

Structure of authorised capital of AB Vilniaus degtinė:

Type of shares	Number of shares, pcs.	Par value, LTL	Total par value, LTL	Share in the authorized capital, %
Ordinary registered shares	24,408,431	1	24,408,431	100.00

Ordinary registered shares that form the Company’s statutory capital render equal rights to all owners of the Company’s shares. All shares of AB Vilniaus degtinė are fully paid-up. The Company has not issued any debt or derivative securities that would be convertible into shares. The Company has not purchased and does not have its own shares.

Total number of shareholders as on the 31st of December 2010 is 277.

Shareholders holding over 5% of the Company’s statutory capital as on the 31st of December 2010:

Shareholder’s name (company name, legal form, enterprise code, registered office address)	Number of shares held by the shareholder under the ownership right	Portion of the statutory capital held, %	Portion of votes held, %
SOBIESKI SP.Z.0.0. ul. Bellottiego 1, 01-022, Warszawa, Polska 230030460	16,668,632	68.29	68.29
ARŪNAS TUMA	2,384,377	9.77	9.77
DARIUS ŽAROMSKIS	2,440,843	9.99	9.99

SKANDINAVISKA ENSKILDA BANKEN CLIENTS Sergels Torg 2, 10640 Stockholm, Sweden 50203290810	2,256,262	9.24	9.24

None of the Company’s shareholders have any special controlling rights. There are no restrictions of voting rights. There are no agreements of the shareholders the Company is aware of and which could restrict assignment of shares and/or voting rights.

Since the 25 March 2002, ordinary registered shares of AB Vilniaus degtinė are listed in the additional trading list of AB NASDAQ OMX Vilnius. All 24,408,431 shares are included into the trade. There are no restrictions with regard to assignment of shares. The Company has signed an agreement with AB FMĮ Finasta on handling of the accounting of issued securities.

History of trade in securities of AB Vilniaus degtinė in 2007 to 2010

(EUR)

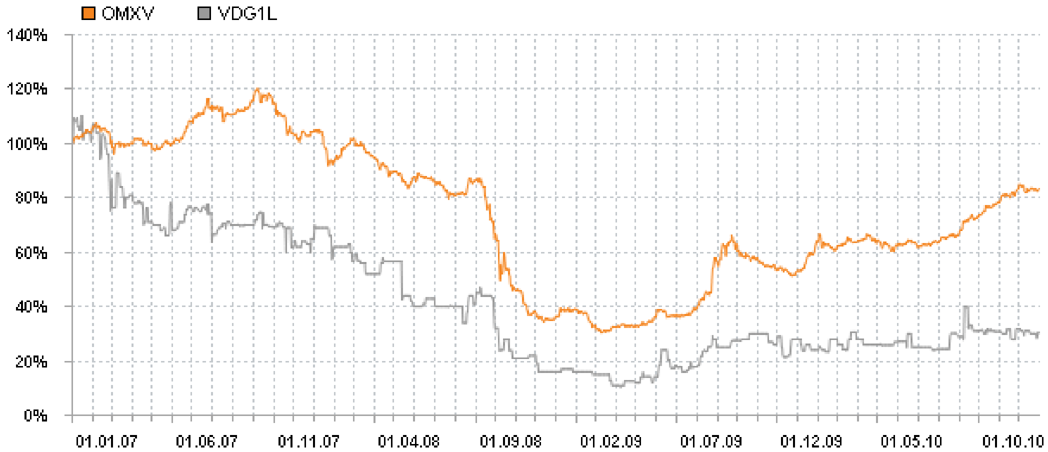
Index	2007	2008	2009	2010
Opening price	1.448	1.014	0.232	0.406
Max. price	1.593	1.014	0.434	0.579
Min. price	0.869	0.232	0.145	0.339
Closing price	0.941	0.232	0.406	0.44
Turnover in pcs.	173,373	67,163	104,134	120,659
Turnover in millions	0.2	0.04	0.03	0.05
Capitalization	22.97	5.66	9.9	10.74

(LTL)

Index	**2007**	**2008**	**2009**	**2010**
Opening price	4.9996544	3.5011392	0.8010496	1.401837
Max. price	5.5003104	3.5011392	1.4985152	1.999171
Min. price	3.0004832	0.8010496	0.500656	1.170499
Closing price	3.2490848	0.8010496	1.4018368	1.519232
Turnover in pcs.	173,373	67,163	104,134	120,659
Turnover in millions	0.69056	0.138112	0.103584	0.17264
Capitalization	79.310816	19.542848	34.18272	37.08307

Trade in the share of AB Vilniaus degtinė (VDG1L) at NASDAQ OMX Vilnius in 2007 to 2010.

Comparison of the price of share of AB Vilniaus degtinė“ (VDG1L) with the index in 2007 to 2010



Index/Shares	01.01.2007	31.12.2010	+/-%
OMX Vilnius	492,65	409,65	-16,85
VDG1L	1,45 EUR	0,44 EUR	-69,62

Capitalization of the last trading session of the Company’s shares

Date of the last trading session	Capitalization, LTL
30.12.2010	37,082,069

In 2010, no beyond the exchange transactions in the Company’s shares were registered.
Information on the trade in the shares of AB Vilniaus degtinė can be found on the securities exchange NASDAQ OMX Vilnius.

3. INFORMATION ON THE COMPANY’S MANAGEMENT

The Company has General Shareholder Meeting, collegial supervisory body – Supervisory Board, collegial management body – the Board and sole management body – CEO (General Director) of the Company.

Supervisory Board of the Company consists of 3 members. It is elected for tenure of four years by the General Shareholder Meeting. When individual members of the Supervisory Board are elected, they shall be elected only for the period ending upon expiry of the tenure of the Supervisory Board.

The Board of the Company consists of 5 members. It is elected for tenure of four years by the Supervisory Board. The Supervisory Board may recall the entire Board or its individual members before expiry of its/their tenure. A member of the Board may resign before expiry of his tenure by at least 14-day prior written notice to the Company.

CEO (General Director) of the Company is elected and recalled, his/her salary is determined, his/her job description is approved and he/she is motivated and penalties are implied on him/her by the Board of the Company.

In the Company's relations with other persons, CEO of the company acts solely on behalf of the Company.

10 meeting of the Board, 4 meetings of the Supervisory Board and 1 shareholder meeting took place in 2010. Issues important to the Company were discussed at them.

Articles of Association of the Company are altered in accordance with the Company Law of the Republic of Lithuania. The most recent wording thereof was filed at the Register of Legal Entities of the Republic of Lithuania on the 11 August 2008.

Members of collegial bodies of AB Vilniaus degtinė, CEO and CFO of the Company (as on the 31 December 2010)

Full name	**Position**	**Participation in the issuer's statutory capital, %**	**Tenure**
Dariusz Jamiola	Chairman of the Supervisory Board	-	Mar 2008 – 2012
Tomasz Kowalski	Member of the Supervisory Board	-	Mar 2008 – 2012
Ilona Šerlatienė	Member of the Supervisory Board	-	Mar 2008 – 2012
Darius Žaromskis	Chairman of the Board	9,99	Dec 2007 – 2011
Danas Kerbelis	Member of the Board	-	Dec 2007 – 2011
Juozas Daunys	Member of the Board	-	Mar 2009 – 2011
Dalius Rutkauskas	Member of the Board	-	Mar 2009 – 2011
Audra Jauniškienė	Member of the Board	-	Dec 2007 – 2011
Danas Kerbelis	General Director	-	18.07.2005
Audra Jauniškienė	Finance & Administration Director	-	01.03.2005

Amounts before taxes paid to members of collegial bodies within the period under report make LTL 309,600 or in average for each member – LTL 309,600 (the aforementioned amount has been paid to one member of the collegial body). CEO and Finance and Administration Director of the Company were allotted LTL 154,487 or in average LTL 77,244 for each of them. The Company has not assigned any assets and has not granted any guarantees to members of collegial bodies, CEO and Finance and Administration Director.

There are no material agreements the Company is a party to and those that would come into force, change or expire in case of change of control over the Company. There are no agreements of the Company and members of its bodies that provide for a compensation in case if he/she resigns or is dismissed without a good reason or in case if their work expires due to change of control over the Company. Information on related party transactions entered into in 2010 is disclosed in financial statements of AB Vilniaus degtinė as on the 31st of December 2010 developed in accordance with International Financial Reporting Standards.

In the course of fulfilment of its duties in accordance with legal instruments regulating securities market, in 2010 the Company was announcing information on material events in the issuer's operations.

On 01.02.2010 the Company announced that vodka Bajorų Premium produced by AB Vilniaus degtinė won the title Product of the Year and gold medal at the contest Lithuanian. Product of the Year 2009 announced by the Confederation of Lithuanian Industrialists.

On 26.02.2010 the Company announced that in 2009 AB Vilniaus degtinė maintained steady positions in the market.

On 24.03.2010 the Company announced that ordinary General Shareholder Meeting will be held on the 16th of April 2010, and agenda of the Meeting.

On 29.03.2010 projects of the ordinary General Shareholder Meeting were announced.

On 16.04.2010 decisions of the ordinary General Shareholder Meeting were announced.

On 10.08.2010 information on the commencement of implementation of the project “Using distillery refuse (broga) for the production of electric power” was announced .

On 27.02.2010, 16.04.2010, 28.05.2010, 31.08.2010, 30.11.2010 the Company’s performance results for respective periods were announced.

This information announced by the Company is available on the Company’s website www.degtinė.lt or website of AB NASDAQ OMX Vilnius www.nasdaqomx.com

Detailed information on the Company’s management and disclosure of information is provided at the end of the annual performance report “Report of AB Vilniaus degtinė on observance of the management code applied on the companies listed at Vilnius Stock Exchange”.

AB Vilniaus degtinė is a member of the following associated structures:

- Association of Lithuanian Chambers of Commerce, Industry and Crafts;
- Association “Lithuanian Food Industry”;
- Association of Companies Trading in Spirits;
- Association of Package Handlers.

4. ANALYSIS OF PRODUCTION ACTIVITIES

Key activities of the Company are production of vodka, flavoured vodka, bitter and other spirits.

The following new products were developed and their production was started in 2010: vodkas Sobieski Platinum, Staryj Kniazij, flavoured vodkas Bajorų su kedrų riešutais, Sobieski Dark Berry, spirit drinks Sobieski Like Mojito, Sobieski like***on the Beach, Karvedys 600, Bajorų Ąžuolinė, bitters Sutartinė Obuolių-aronijos trauktinė, Sutartinė Vyšnių-mėlynių trauktinė, Sutartinė Spanguolių-bruknių trauktinė, brandy Renaissance VS, cream liqueurs Dama Toffee and orange-flavored cream liqueur, and Dama šokoladinis kremo likeris.

Last year, vodka Sobieski Platinum by AB Vilniaus degtinė was awarded gold medal by Confederation of Lithuanian Industrialists at the contest “Lithuanian Product of the Year 2010”.

Obeliai distillery, a branch of AB Vilniaus degtinė, makes edible distilled ethyl alcohol of rye. Distilled ethyl alcohol is supplied to AB Vilniaus degtinė for rectification and further processing. In 2010, Obeliai distillery produced 4.1 million LPA of distilled ethyl alcohol, and AB, Vilniaus degtinė – 3.7 million LPA of rectified ethyl alcohol.

Production capacities in 2008 to 2010.

	2010			2009			2008		
	Thous. ltr	**Share, %**	**Range, pcs.**	**Thous. ltr**	**Share, %**	**Range, pcs.**	**Thous. Ltr**	**Share, %**	**Range, pcs.**
Vodka	4,270.2	72.65	30	4694,1	69,15	19	6304,7	68,61	15
Flavoured vodka	696.0	11.84	22	1028,4	15,15	16	1562,5	17,00	15
Bitter	544.4	9.26	18	542,7	8,00	12	736,6	8,02	13
Gin	32.6	0.55	1	37,7	0,55	1	43,5	0,47	1
Liqueurs	105.3	1.79	7	167,4	2,47	5	194,3	2,12	5
Scotch whiskey									
Brandy	229.5	3.90	5	317,5	4,68	3	347,8	3,78	3
Total	**5,878.0**	**100.00**	**83**	**6787,8**	**100,00**	**56**	**9189,4**	**100,00**	**52**
Rectified ethyl alcohol, bottles	5.9		1	8,9		1	7,9		1
Distilled ethyl alcohol	4,078.5	-	1	3792,9	-	1	4668,2	-	1
Rectified ethyl alcohol	3,711.0	-	1	3208,7	-	1	4243,2	-	1
Denaturated ethyl alcohol	46.0	-	1	36,3	-	1	45,0	-	1
Aldehydes	254.2	-	1	259,5	-	1	277,0	-	1

In 2010, investments were made into modernization of the production process, renovation of machinery and equipment, employee training and other facilities. In 2010, much attention was paid to production optimization and production cost cutting.

In the course of implementation of strategic objectives, the Company continued investing into improvement of production processes and product quality, aiming at producing original and high-quality beverages made of grain cultivated in Lithuania and ethyl alcohol produced in the Obeliai distillery.

In 2010, bottle packaging machine was purchased. This investment enabled the Company to partially refuse from manual work and reduce the number of employees. Having purchased the new packaging machine, the Company refused from plastic boxes, which resulted in decreased transportation costs.

In 2010, AB Vilniaus degtinė invested into improvement of working conditions for its employees. Major repairs were carried out in the bottling section: windows, floor, lighting, etc. were replaced.

In 2010, construction works of co-generative power station were started at Obeliai plant. Thanks to financing of EU structural funds, the Company intends to construct the co-generative power station at the end of 2011, where installed electric power will reach 1.5 MW, and thermal power – 1.6 MW. Total value of the project to be implemented in the only Lithuanian Obeliai spirit distillery amounts to LTL 19,984,000 (exclusive of taxes), including LTL 9,992,000 to be financed by EU structural funds. This co-generative power station will be producing biogas out of distillery refuse (broga) obtained from during the process of grain processing into alcohol, and the biogas will be used to generate electric power. Production of biogas using distillery refuse will enable the Company to provide for thermal and electric energy, and sell excess electric energy to distribution mains. This project is aimed to both, cut costs of energy resources and modernize the use of waste of the spirit factory, as well as reduce the environment pollution.

In 2010, project-related investments amounted to LTL 6,363.8 thousand.

The Company has revised and adjusted according to the existing situation documentation of its quality management system. It has revised technological and normative documents of the production, controlled amounts of consumed material resources. The Company has implemented quality management system ISO 9001:2000.

In 2010, the Company allotted to investments the amount of LTL 9,509.9 thousand, and LTL 632.9 thousand were allotted to repairs of machinery and buildings.

All of the aforementioned measures enabled to Company to improve the use of production capacities, product quality, secure safe and intense work, and save some material resources.

5. COMMERCIAL ACTIVITIES

Sales revenue of AB Vilniaus degtinė in January-December 2010 decreased by 12.3% compared to last year and amounted to LTL 41,829,018 (EUR 12,114,521), and in 2009 they were LTL 47,678,504 (EUR 13,808,649).

In January-December 2010, the Company's loss before taxes amounted to LTL 401,769 (EUR 116,360), meanwhile in 2009 it earned LTL 543,409 (EUR 157,382).

In January-December 2010, AB Vilniaus degtinė sold 6,267.6 thousand litres of spirits, which was 6.9% less than during 12 months of 2009 (6,734.2 thousand litres of beverages).

Last year, the market of strong alcoholic beverages in litres shrunk by 13.4% compared to 2009. Main reason being decrease of sales and market shrinking were: dull domestic consumption, shadow economy and growing import of cheap products from Belarus.

Last year, sales of AB Vilniaus degtinė shrunk more than the market in general. According to the data of the vodka market, in 2009 Vilniaus degtinė held 24.1% vodka market share, meanwhile in 2010 it dropped down to 22.5%, though market share of the key brand Sobieski remained almost unchanged at 12.8%. Decrease of the market share was mostly affected by decrease of sales of cheap vodkas.

The Company has been carrying out its activities in two segments: Lithuanian market and foreign market. These segments differ by geographic allocation of customers. Most part of the Company's sales consists of sales in Lithuanian market. In 2010, sales to EU and foreign markets amounted to LTL 3,779.3 thousand (in 2009 – LTL 2,274.6 thousand).

In 2010 the export of AB Vilniaus degtinė has increased by 66% in comparison to the year 2009. The main markets for export were Latvia, Estonia, Poland, England, Israel.

Realisation of ready production and goods intended for resale in 2008 – 2010

Production	2010			2009			2008		
	Thous. litres	Thous. LTL	% of turn-over	Thous. litres	Thous. LTL	% of turn-over	Thous. litres	Thous. LTL	% of turn-over
Alcoholic beverages	6,267.6	36,506.03	87,27	6 734,2	44 529,56	93,40	9 543,6	61 242,33	96,41
- vodka	5,007.3	25,733.62	61,52	5 553,6	33 377,73	70,01	7 781,3	45 271,98	71,27
- bitter	525.3	4,422.49	10,57	521,1	4 534,06	9,51	758,1	6 539,70	10,29
- liqueur	110.7	1,344.18	3,21	149,5	1 875,25	3,93	200,4	2 379,65	3,75
- Vilnius gin	34.4	184.60	0,44	38,8	218,35	0,45	42,9	250,34	0,39
- Scotch whisky									
- wine	196.5	1,165.61	2,79	59,7	330,99	0,70	123,5	604,52	0,95
- brandy	237.9	2,593.32	6,20	283,9	3 450,63	7,24	339,7	4 264,64	6,71
- alcoholic cocktails	53.9	265.18	0,63	84,1	485,58	1,02	277,6	1 680,53	2,65
- other beverages	101.6	797.03	1,91	43,5	256,97	0,54	20,1	250,97	0,40
Edible rectified ethyl alcohol	1,698.3	4,958.53	11,86	1 142,0	2 798,27	5,87	528,8	1 838,92	2,90
Denaturated ethyl alcohol	46.7	108.31	0,26	35,5	81,90	0,17	51,5	117,31	0,18
Aldehydes	220.5	254.89	0,61	216,5	267,22	0,56	225,2	322,42	0,51
Other products and services		1.26			1,55		-	1,92	
Total		**41,829.02**	**100,0**		**53 199,63**	**100,0**	**1**	**69 368,52**	**100,00**

In 2010, most part of sales consisted of vodka sale amounting to LTL 25,733.62 thousand or 61.52% of overall turnover of the Company.

The Company allotted extensive funds to the development of images of the trademarks Sobieski, ‚Bajorų, as well as sales promotion and advertising strategy, public relations and other issues. Much attention was paid to product sale, restaurant and café supervision. All in all, spending on alcohol advertising and promotion during the reporting period amounted to LTL 3,987.1 thousand.

In 2010, the Company has fully procured for raw materials and materials necessary for the production. Raw materials and materials are purchased by the Company in accordance with EU regulations in force.

Purchasing of auxiliary materials:

- Bottles for principal products from AB Panevėžio stiklas;
- Bottles for souvenir products, caps from EU member-states;
- Labels, label glues (the most favourable suppliers in Lithuania and Poland from price, quality, supplies and payment points of view).

Materials, machinery parts, construction materials for repairs, household articles, and office supplies are purchased under tenders of the established form furnished to the purchasing department. Purchasing department compiles a list of acceptable suppliers, analyses information on the presented product, i.e. its quality, price, and controls fulfilment of supply-related obligations.

6. ECONOMIC-FINANCIAL RESULTS

Most part of the Company’s principal income (87.3%) consists of income from sales of spirits. In 2010, the Company has earned revenue of LTL 41,829.0 thous. from its operating activities. Compared to revenue of 2009 (LTL 53,199.6 thous.), it dropped down by 12.3%. Decrease in sales volumes was determined by overall economic downturn in the country which resulted in decreased consumption and increased sales of illegal alcohol in the so-called shadow market.

In 2010, loss before taxes amounted to LTL 401.8 thousand; in 2009 EBT was LTL 543.4 thousand. Formation of loss was mostly determined by decreased sales and redundancy pays to former employees of the Company.

Detailed information on the Company's financial results in 2010 is disclosed in financial statements of AB Vilniaus degtinė as on the 31 December 2010 developed in accordance with International Financial Reporting Standards adopted for application in EU.

Audit of financial statements of AB Vilniaus degtinė for the year 2010 consisting of the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows of the 31 December 2010 was carried out by UAB Rimess.

Indicators characterising performance of the Company in 2008–2010

Key indicators	2010	2009	2008
Sales revenue (excl. excise tax), thou. LTL	41,829.0	47,678.5	63,522.9
Gross profit, thou. LTL	16,182.3	22,170.7	27,216.6
Earnings of operating activities (EBIT), thou. LTL	118.9	1,557.9	3,163.5
Profit before tax, thou. LTL	(401.8)	543.4	1,820.8
Profit (loss) for the year, thou. LTL	(335.9)	726.3	1,322.5
Depreciation and amortisation, thou. LTL	3,901.7	3,873.7	3,670.5
EBITDA, thou. LTL	4,020.7	5,431.6	6,834.0
Non-current assets, thou. LTL	44,594.1	35,486.1	38,105.4
Current assets, thou. LTL	32,100.4	41,575.9	52,788.1
Total assets, thou. LTL	76,694.5	77,062.1	90,893.5
Share capital, thou. LTL	24,408.4	24,408.4	24,408.4
Shareholders' equity, thou. LTL	38,960.3	39,296.3	38,570.0
Non-current liabilities, thou. LTL	10,454.3	7,952.5	26,082.1
Current liabilities, thou. LTL	27,279.9	29,813.3	26,241.5
Net cash flows from operating activities, thou. LTL	7,892.8	10,243.6	1,140.2
Net cash flows from investing activities, thou. LTL	(9,038.3)	(1,889.2)	(6,376.0)
Net cash flows from financing activities, thou. LTL	1,112.9	(8,324.7)	5,216.1
Gross profit margin ratio, percent	38.7	46.5	42.9
Net profit margin ratio, percent	0.3	3.3	5.0
EBT ratio, %	(1.0)	1.1	2.9
Net profit margin ratio, %	(0.80)	1.52	2.08
EBITDA profit margin ratio, %	9.6	11.4	10.8
ROE (return on equity), LTL	(0.01)	0.02	0.04
ROA (return on assets), LTL	0.003	0.021	0.031
Quick ratio	0.90	1.09	1.63
Net working capital turnover, ratio	4.25	2.49	3.51
Book value per share, LTL	1.60	1.61	1.58
Net profit per share, LTL	(0.01)	0.03	0.05
Share market price at the end of the period, LTL	1.52	1.40	0.80
P/E ratio	(152.0)	46.67	16.0
Assets turnover ratio	0.55	0.62	0.70
General liquidity ratio	1.18	1.39	2.01
Debt-to-equity ratio	0.97	0.96	1.36
Debt ratio	0.49	0.49	0.58
Average return on assets, percent	(0.44)	0.86	1.48

The Company's assets decreased very slightly as on the 31 December 2010 (LTL 76,694.5 thousand). This was a result of lower balance of trade debtors receivable and inventories in the warehouse. Increase of assets was determined by investments into non-current assets.

Most part of amounts payable and liabilities consisted of the long-term credit granted by AB DnB NORD bank, as well as two credit lines for circulating funds.

Financial liabilities to credit institution as on the 31 December 2010 amounted to LTL 18,789.5 thous. In 2010, average annual interest rate applied on the long-term credit was 3.63%, on credit line – 4.33%; long-term loan repayment term expires on 31.12.2015, two credit lines – on 31.08.2011.

Trade creditors, compared to the previous year, increased by 8.7%. The Company has no overdue arrears against its suppliers. Most part of other amounts payable and current liabilities consists of the excise tax and value added tax payable for 2010.

To secure repayment of long-term credit and credit limit granted by AB DnB NORD as on the 31 December 2010, the Company has pledged its current and non-current assets, as well as inventories.

In 2010, net positive cash flows from operating activities (LTL 7.892.8 thous.) were mostly a result of decreased trade debtors, prepayments, and inventories in the warehouse. Negative cash flows from investment activities (LTL 9.038,3 thous.) is the result of acquisition of non-current assets and granting of loans to an associated company. Net positive cash flows from financial activities (LTL 1,112.9 thous.) have formed having received a governmental grant.

7. RISK FACTORS RELATED TO ACTIVITIES OF THE COMPANY

Economic risk factors. Main risk factors are: poor economic situation, increasing sales of alcohol in shadow market, possible increase of the excise duty and increasing restrictions applied on advertising and trade. As the competition is getting tougher, the Company pays much attention and allots extensive funds to the development of brand image and strengthening of selling positions in the market.

In 2010, AB Vilniaus degtinė had no problems related to procurement of raw materials and materials necessary for the production. Long-term supply agreements were signed and exact delivery terms were set. Agreements with buyers on sale of products are mostly concluded for a calendar year.

Financial risk factors. To secure repayment of the loan and overdraft granted by the bank the Company has pledged the following assets:

In LTL	2010	2009
Carrying amount of pledged buildings and structures	10 894 956	11 720 502
Carrying amount of pledged trademarks	12 924 343	13 870 026
Carrying amount of pledged inventories	7 246 521	7 689 344
Property right-land plot renting right		

For the purpose of securing fulfilment of its obligations under the Crediting Agreement, the Company, under an Agreement on Assignment of Claiming Rights, has assigned to the Bank the existing and future monetary funds in its accounts with AB DnB NORD, as well as amounts receivable from its buyers, which amounted LTL 24,135.9 thous. as on the 31 December 2010.

Concerning credit obligations against the bank, additional capital requirements are applied on the Company, which are controlled and fulfilled by the Company.

Ecologic risk factors. Last year, no penalties for environment pollution, restriction or suspension of production activities due to the harm to the environment were implied. No other ecologic risk factors, accidents took place in 2010. The Company has concluded contracts on handling of packaging waste. In 2010, spending on packaging handling amounted to LTL 855.8 thous. Considering production capacities and tasks of use and recycling of packaging, these costs may increase.

Technical-technological risk factors. Since a part of technological machinery in the Company is depreciated, much attention is paid to updating the machinery, development of technological processes and improvement of product quality for the purpose of eliminating technical risk factors.

Social risk factors. Employees of the Company keep on improving their qualification at different qualification courses, seminars, and institutions of higher education. There is no lack of employees in the market. Salaries are paid in the Company in timely manner.

Information on other risk factors is disclosed in Note 25 of the explanatory letter to the financial statement as on the 31 December 2010.

8. EMPLOYEES

Average number of employees on the payroll in 2010 was 179, which was 9.1% less compared to 2009 (197 employees).

Average number of employees on the payroll in 2008 - 2010.

	2010	**2009**	**2008**
Number of employees	179	197	227

Average monthly salary of employees, in LTL

Employees	**2010**		***2009***		***2008***	
	Number (as on Dec 31)	**Average salary, LTL**	**Number (as on Dec 31)**	**Average salary, LTL**	**Number (as on Dec 31)**	**Average salary, LTL**
Managing staff	5	8,372	***5***	***8,894***	***6***	***8,751***
Specialists and white-collars	54	2,935	***52***	***3,157***	***62***	***3,010***
Blue-collars	110	1,583	***136***	***1,652***	***159***	***1,840***
Total:	169	2,144	*193*	**2,209**	*227*	**2,305**

Employee breakdown by education

	Number of employees as on 31.12.2010	**Number of employees as on 31.12.2009**	**Number of employees as on 31.12.2008**
University education	50	40	45
College education	38	60	60
Upper secondary or vocational secondary education	80	93	117
Incomplete secondary education	1	0	5

In 2010, average monthly salary amounted to LTL 2,144, which means a decrease by 2.9% compared to 2009.

Financial relations with management of the company and other related persons (LTL thous.)

	2010	2009
1.Amounts before taxes related to labour relations: Management	588.2	721.1
Other related persons	-	-
2. Gratuitously transferred assets and gifts: Managers Other related persons		
3. Other material amounts before taxes within the year: Managers		
Other related persons	309.6	309.6
Average number of managers	5	5

No particular rights and duties of employees of the Company or any part thereof have been provided in their employment contracts or collective agreements

Employees of the Company are constantly upgrading their qualification in various seminars and courses. In 2010, 6 employees continued studying as extramural students. In 2010, employees of the Company started taking part in the GPD project “Training of top and medium level managers of leading companies for the purpose of increasing cooperation and competitiveness of companies with maximum economic potential in the international context”, which will continue next year as well.

Moreover, the Company has applied through LIF for participation in the GPD project intended to improve employee qualification by deepening and expanding knowledge of foreign languages.

9. INFORMATION ON THE COMPANY’S RESEARCH & DEVELOPMENT ACTIVITIES

Development of new products (beverages and recipes) is constant and consistent part of the Company’s activities. The Company regularly carried out experimental expansion projects based on internal surveys and experience of its employees, during which experimental tests are carried out. It continues working on the production of flavoured vodkas and bitters. Most attention is paid to development of traditional vodka and refinement of its taste.

Within a couple of recent years, a considerable part of the Company’s investments was directed to development of new products. In 2010, a significant achievement in the field of new product development was golden medal won by the vodka Sobieski Platinum at the contest Product of The Year held by Confederation of Lithuanian Industrialists.

10. ENVIRONMENTAL ISSUES

AB Vilniaus degtinė, a company that produces and sells edible alcohol and spirits, carries out its activities in accordance with integrated pollution prevention and control (IPPC) permit. The Company pursues to reduce its negative impact on the environment by taking pollution prevention measures, which make sure that activities carried out by the Company do not have any harmful effect on air, water, and soil. The Company constantly observes its performance ratios, plans and implements investments enabling it to cut production and operating costs and energy expenses, as well as comprehensively improve the Company’s environmental status.

Key sources of pollution at the Company’s branch Obeliai distillery are boiler room and ethyl alcohol production shop. The Company’s boiler room produces steam for technological process and at the same time heats production and household premises. Steam boiler of the boiler room works 24 hours a day, 1,800 tons of liquid fuel are burned in the boiler room per annum. Every quarter, the Company reports to Regional Environment Protection Department (REPD) consumed natural resources and emitted pollutants from mobile and static sources of pollution. Waste and sewage formed in the course of the production process are collected and purified in the Company’s own purification facilities. To improve control over the works of sewage purification facilities, control tests are regularly carried out at Panevėžys REPD. This is how the Company carries out basin’s underground water monitoring program.

Vilnius branch of the Company uses natural gas in the technological process (annual natural gas consumption was 1,558.59 t m^3). Production, household and surface sewage get into sewerage systems of UAB Vilniaus vandenys. All waste that is formed in the Company: glass, metals, paper and cardboard packages, plastic packages, etc. are sorted and handed over to waste handling companies. There were 185 tons of waste in the Company in 2010.

The Company has carried out danger and risk analysis, developed accident prevention measures and accident liquidation plan. The Company's buildings have been assessed and marked in accordance with general fire safety rules.

The Company's calculated tax for environment pollution amounted to LTL 39.9 thousand, and for natural resources – LTL 5.8 thousand.

11. BUSINESS PLANS AND PROSPECTS OF THE COMPANY

A couple of recent years in Lithuanian market have not been favourable to both producers and sellers of spirits: economy shrunk, excise tax increased, and shadow business alone conditioned shrinking of the vodka market in 2010 by 15%. In 2011, vodka market is forecasted to shrink further by 5% due to still dull local consumption, governmental policy with regard to alcohol, and consumption trends that are more favourable towards less strong alcohol (wine, beer, alcohol cocktails).

Regardless of negative trends, in 2011 alcohol sales of AB Vilniaus degtinė are forecasted to be 6,417.5 thousand litres or by 2.4% higher than in 2010. Key premises for growth:

- Export. Development of export is one of priority goals of the Company in its pursuit to diversify sales portfolio, which is currently highly dependent on Lithuanian market. In 2011, export is expected to grow by 17.1% and amount to 388 thousand litres. Priority markets are: Latvia, Estonia, Poland, and Scandinavian countries.
- Product range. In 2011, we are planning to supplement the range of AB Vilniaus degtinė with at least two new product categories. Vodka that still accounts for most part of the Company's products (84% of all products) remains the Company's priority category. Sobieski vodka will be priority trademark the Company intends to focus on when strengthening its positions in the Baltic States. In 2011, we intend to market approx. 20 new products in 5 categories of spirits.
- Wine. This category has growth prospects and keeps on increasing its share in the Company's sales. In 2011, we are going to accomplish formation of the assortment, which will enable the Company to satisfy most part of consumer needs.

Key goals for 2011 are expected to be as follows:

- Further increasing effectiveness of operations and optimisation of costs.

- Development of Sobieski and Bajorų brands, increasing their awareness and competitiveness.

- Modernisation and increasing of effectiveness of the production base.

- Implementation of the project "Using distillery refuse (broga) for the production of electric power" (EU structural fund financing received) at Obeliai distillery.

The Company expects that process effectiveness upgrading and optimization works carried out in 2010-2011 and investments will enable the Company to achieve better performance ratios in the coming years.

12. THE COMPANY'S INTERNAL CONTROL SYSTEM

The purpose of the internal control system at AB Vilniaus degtinė is to assure implementation of the Company's objectives and goals, so that the Company could pursue long-term profitability and would create reliable financial and management accounting control.

The Company's internal control is a dynamic process aimed at guaranteeing observance of laws, legislative enactments and rules adopted by the Company, implementation of proper methods of protecting the Company's assets, preventing errors and revealing misuses. Three stages are singled out in this process:

1) Establishment of standard and requirement criteria;

2) Comparison of actual and forecasted data;

3) Decision-making after data analysis.

Organizational structure operating in the Company clearly defines functions of its employees and accountability for the quality of work. The existing accounting management system assures correct data accounting and control. The Company carries out systematic and momentary asset inventory accounting, which ensures protection of assets against unauthorized use or plunder. Management of the Company assures that financial officers have adequate competence, experience and up-to-date knowledge necessary for development of reliable financial statements.

The Company's Management is doing its best to make sure that the internal control system speeds up management processes and helps manage business risk.

13. IMPORTANT EVENTS THAT TOOK PLACE AFTER THE END OF THE FINANCIAL YEAR

On the 25 January 2011, the Company's Supervisory Board at its meeting recalled one of the members of the Board, Mr. Renaldas Barauskas, and replaced him with Mr. Juozas Daunys, Deputy General Director for AB Vilniaus degtinė.

There has been a number of articles in the press on possible bankruptcy of Belvedere Group. In the opinion of the Company's management, there is no actual threat to Belvedere Group with regard to the bankruptcy.

General Director Danas Kerbelis

13. ANNEX TO ANNUAL REPORT

Report of AB Vilniaus Degtinė on the compliance with the Corporate Management Code for the Companies Listed on the Vilnius Stock Exchange in 2010

Following part 3 of article 21 of the Law on Securities of the Republic of Lithuania and paragraph 20.5 of the Trading Rules of stock company Vilnius Stock Exchange (“Vilniaus vertybinių popierių birža”), stock company Vilniaus Degtinė reveals in this report on how it complies to the Corporate Code of Management approved by Vilnius Stock Exchange for the companies whose stock is traded in the regulated market, and specific provisions thereof.

PRINCIPLES/ RECOMMENDATIONS	YES /NO /IRRELEVANT	COMMENT
Principe I: **Basic provisions** **The overriding objective of a company should be to operate in common interests of all the shareholders by optimising over time shareholder value.**		
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 optimise shareholder value.	Yes	The management system of the stock company Vilniaus Degtinė ensures that all information about material events of the company, financial results, activities and development prospects is disclosed on a timely basis and accurately as provided for by the provisions of the law, and the information is also posted on the website of the company and in other sources.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimise shareholder value.	Yes	The activities of all management bodies of the company are focused on creating value for the shareholders and client, providing high-quality products to the consumers.
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.	Yes	The supervisory board, the board and the CEO of the company work in close cooperation when resolving various issues arising in the company, held joint discussions on particularly important issues in order to find the most optimal solutions ensuring maximum benefit for the company.
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 too.	Yes	Management bodies of the company ensure that the rights of all interested parties (stakeholders) are respected. Quality management system (ISO 9001) has been implemented in the company; a labour council is elected in the company to represent the interests of the employees. There is mutually beneficial cooperation with suppliers and clients; terms and provisions of the contracts are being strictly followed.

Principle II: The corporate management framework **The corporate management 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.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholder 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	The company follows this recommendation; it has the following supervisory and management bodies: general shareholder meeting, supervisory board, board and the head of the company. Regular board meetings and supervisory board meetings, discussion of the most important issues of the company ensure effective supervision of company's activities.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate management. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The collegial management body of the company is the board, collegial supervisory body – supervisory board.
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.	Irrelevant	The company has both supervisory board and the board.
2.4. The collegial supervisory body to be elected by the general shareholder 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.	Yes	This recommendation is observed when the provisions of principles III and IV are applied in formation of the supervisory board of the company (and the board to the extent it is possible) or evaluation of its activities.
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.	Yes	The supervisory board of the company consists of three persons; the board consists of five persons.
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.	Yes	The supervisory board and the board are elected for a term of 4 years; according to the Articles of Association of the issuer, it is not prohibited to re-elect these persons.
2.7. Chairman of the collegial body elected by the general shareholder 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 shareholder meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The company partly follows this recommendation (the head of the supervisory board has never been the head of the company, but the chairman of the board has been the head of the company). The chairman of the supervisory board represents the main shareholder of the company and is not related with day-to-day operations of the company.

Principle III: The procedure of the formation of a collegial body to be elected by a general shareholder meeting **The order of the formation a collegial body to be elected by a general shareholder 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**.		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholder 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.	Yes	Information about the candidates to the members of collegial bodies of the company is publicly available, but the controlling shareholder can propose the general shareholder meeting to recall members of collegial bodies at its own discretion. Members of collegial bodies do not receive remuneration from the company's funds.
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 shareholder 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.	Yes	The company collects the information about the official duties of the members of collegial bodies and their participation in the operations of other companies This information is regularly revised and updated and it is made publicly available through the reports of the company.
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.	Yes	Detailed information on the education, professional experience, etc. of the candidates to the members of the supervisory board is provided to the shareholders' meeting.
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.	Yes	When electing the members of collegial bodies of the company, it is assured that the members have appropriate qualifications.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member to 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.	Yes	Members of the collegial bodies of the company upgrade their qualifications at various refresher courses, special seminars where they are updated on basic changes in the regulations applicable to the company's activities.

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 number of independent members.	No	Members of the supervisory board of the company only partly comply with the independence criteria; up till now, the independence of the members of the supervisory board was not subject to assessment in the company.

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: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholder meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 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; 3) 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); 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); 5) He/she does not have and did not have any material business relations with the company 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, counselling and consulting services), major client or organization receiving significant payments from the company or its group;	No	The company does not follow this recommendation of the Management Code because the members of the supervisory board are employees of the controlling shareholder or associated companies.

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;		
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 the supervisory board is a collegial body elected by the general shareholder meeting) 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; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 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 shareholder 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. 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.		
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.	No	Up till now, the independence of the members of the management bodies was not subject to assessment and disclosure in the company.
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.	No	The company regularly discloses the relations of the supervisory board and the board with the company in its periodic reports, although, up till now, the independence of the members of the management bodies was not subject to assessment and disclosure in the company.

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. The general shareholder meeting should approve the amount of such remuneration.	Irrelevant	Members of collegial bodies do not receive any remuneration from the company's funds (regardless of the information provided in Article 3 "Information on Management of the Company").
Principle IV: The duties and liabilities of a collegial body elected by the general shareholder meeting **The corporate management framework should ensure proper and effective functioning of the collegial body elected by the general shareholder meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholder 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.	Yes	Supervisory board elected in the company shall submit to the general shareholder meeting comments and proposals regarding the annual financial statements, profit distribution plan and annual report of the company, also carry out other functions within the competence of supervisory board. At the regular meetings of supervisory board and board, the administration of the company reports about its activities.
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).	Yes	According to the information available to the company, all members of collegial bodies act with good will in respect of the company, considering the interests of the company rather than those of their own or third parties.
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 of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of collegial bodies dedicate enough time and attention for resolving company's issues, take part in all the meetings held by the collegial body.
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.	Yes	Members of the management bodies of the company follow the principles of communication with the shareholders established by the laws and, before making decisions that are of great importance to the company, consider the effect they will have on the shareholders and present the main information about company matters in the periodic reports.
4.5. It is recommended that transactions (except insignificant	Yes	The management bodies of the company

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.		conclude and approve transactions following the requirements of the laws and the Articles of Association of the company, observing the principle of acting to the benefit of the company.
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. 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.	Yes	Collegial management body, mostly dependent on the main shareholder operating in a similar business, makes decisions only based on the best interests of the company.
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.	No	The company does not fully follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.
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.	Irrelevant	The company does not fully follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.
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 the collegial body. In cases when	No	The company does not fully follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the

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 refreshed and that undue reliance is not placed on particular individuals.		company.

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 management 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.	No	The company does not fully follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.
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.	No	The company does not fully follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 4. . . 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; 2) 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; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 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 shareholder 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	No	The company does not fully follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.

nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) 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; 2) 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 total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) 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); 5) 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. 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: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) 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. 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	No	The company does not fully follow this recommendation because, considering the size and structure of the company, no appointment, salary or audit committees are formed in the company.

remuneration of other executive directors or members of the management bodies. 4.13.4. Remuneration committee should notify shareholders on performance of their functions and, for that purpose, take part in annual general shareholder meeting.		

4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) 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); 2) 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; 3) 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; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholder 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; 5) 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; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 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	Yes	Functions of the audit committee in the Company are carried out by the supervisory board.

accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose enterprises (organizations) and justification of such operations. 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. 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. 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. 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. 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.		
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.	No	The company does not have an established practice of evaluating and informing about the activities of the management bodies.

Principle V: The working procedure of the company’s collegial bodies **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.**		
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.	Yes	Collegial supervisory and management bodies of the company are managed by the chairmen of these bodies. The chairman of a collegial body shall be responsible for the proper convention of the meetings of the appropriate collegial body.
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 management 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.	Yes	The procedure of the meetings of the supervisory and management bodies is not strictly defined; when needed, meetings are called on a short notice.
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.	Yes	The members of the management bodies are properly notified about the convention of a meeting and supplied with all material necessary for the adoption of the resolutions.
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-coordinating dates of the meetings, their agendas and resolving other issues of corporate management. 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.	Yes	The chairmen of collegial supervisory and management bodies of the company agree among themselves about the date and agenda of the meetings to be convened and work in close cooperation when adopting resolutions that are of high importance to the company.

Principle VI: The equitable treatment of shareholders and shareholder rights The corporate management framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate management framework should protect the rights of the shareholders.		
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.	Yes	Ordinary registered shares, which form the statutory capital of the company, grant equal rights to all the shareholders of the company.
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.	Yes	The company does not issue new shares.
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 shareholder meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed	Yes	All transactions that are important to the company and its shareholders are being approved by the general shareholder meeting (the Articles of Association of the company establish the criteria for important transactions). All the shareholders are provided with equal opportunities to get acquainted and participate in adopting important decisions.
6.4. Procedures of convening and conducting a general shareholder 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 shareholder meeting and receive answers to them.	Yes	The procedures of convening and conducting the general shareholder meeting provide the shareholders with equal opportunities to take part in a meeting. All the shareholders of the company are given the possibility to ask the members of supervisory and management bodies questions on the agenda of the general shareholder meeting and receive answers to them.
6.5. It is recommended that documents on the course of the general shareholder meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholder 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.	Yes	Documents prepared for the general shareholder meeting, including draft resolutions thereof, are announced to the public on the Company's website. All information is presented in Lithuanian and English.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholder meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the company can participate in the shareholders' meeting both in person and through a proxy, provided the person has been duly authorised. The company provides the shareholders with the possibility to vote by filling in a general voting-paper, as provided for by the Company

		Law.
6.7. With a view to increasing the shareholders’ opportunities to participate effectively at shareholder 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.	Irrelevant	Up till now, there was no need to implement this recommendation in the company.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate management 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.**		
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.	Yes	The company follows these recommendations; the members of its supervisory board and the board act upon these recommendations.
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 shareholder meeting or any other corporate body authorized by the meeting.	Yes	
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.	Yes	
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.	Yes	The company follows these recommendations; the members of its supervisory board and the board act upon this recommendation in practice or would act upon it in such situation because they are acquainted with these provisions and would knowingly follow the recommendation.
Principle VIII: Company's remuneration policy **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.**		
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.	No	The company does not prepare reports on salary policy because it is a confidential internal document of the company. The general information about the salaries paid to the management is disclosed and average salary of the company's employees is specified by categories in the annual report.

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.	Yes	Information about the total amount of the salary paid out to the management during the year is made public every year through the reports.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of relative importance of variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Explanation of how are selected performance valuation criteria useful for long-term interests of the Company; 4) Explanation of methods applicable to determine whether performance valuation criteria are satisfied; 5) Sufficient information on the period of deferrement of variable component for remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy of redundancy pays; 9) Sufficient information on the period of granting rights over remuneration in shares as set forth in Section 8.13; 10) Sufficient information on retaining of shares after granting the rights as set forth in Section 8.15; 11) Sufficient information on composition of similar company groups remuneration policy of which was analysed for the purpose of developing associated company's remuneration setting policy; 12) Description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration report shall not contain any information that is confidential from the commercial point of view.	No	The supervisory and management bodies of the company conclude and approve contracts with the company's administration heads; the contracts are confidential and not publicly available.
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.	No	The supervisory and management bodies of the company conclude and approve the contracts with the company's administration heads; the contracts are confidential and not publicly available.
8.5. 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 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.	No	

8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) 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; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) 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; 4) 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; 5) 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; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) 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; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) 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. 8.5.4. 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.		

8.6. When remuneration (setting) policy provides for variable components of remuneration, the Company should set the limits of such variable component of remuneration. Fixed component of remuneration should be sufficient for the Company to be able to refrain from paying the variable component when performance valuation criteria are not satisfied.	No	The company does not make the salary policy publicly available because it is a confidential internal document of the company..
8.7. Allotment of variable components of remuneration should depend on pre-determined and measurable performance valuation criteria.	No	
8.8. When variable component of remuneration is allotted, payment of the most part of such variable component should be deferred for a certain period meeting the criteria of reason. The amount of variable component of remuneration, payment of which is deferred, should be set under relative value of the variable component, compared to the fixed component of remuneration 8.9. Agreements with executive directors or members of management bodies should include a provision enabling the Company to regain the variable component of remuneration paid out on the basis of data that later proved to be obviously false. 8.10. Redundancy pays should not exceed determined amounrtor determined figure of annual remunerations and generally should not exceed the amount of fixed component of two years or its equivalent**.** 8.11. Redundancy pays should not be paid in case if employment contract is terminated due to poor performance. 8.12. Moreover, information related to the preparatory and decision-making process containing determination of the process of setting remunerations of the Company’s directors should be disclosed. Such information shall contain data, if applicable, on powers and composition of the remuneration committee, names of external advisors the service of whom is used when determining the remuneration policy, as well as the role of the annual general shareholder meeting. 8.13. In case when remuneration is based on allotment of shares, the right over shares should not be granted for at least three years after their allotment. 8.14. Share selection transactions or other rights to acquire shares or get a fee based on changes of the share price shall not be executed for three years after their allotment. Granting the right over shares and the right to execute share selection transactions or other rights to acquire shares or get a fee based on changes of the share price should depend on pre-determined and measurable performance valuation criteria. 8.15. After granting of rights, directors should retain a certain number of shares until expiry of their tenure, depending on the need to cover certain expenses related to acquisition of shares. The number of shares that must be retained shall be determined, for instance, at the value of double annual remuneration (fixed component plus variable component thereof). 8.16. Share selection transactions should not be included into remuneration of advisors of directors or members of the supervisory board. 8.17. Shareholders, first of all – institutional, should be promoted to take part in general shareholder meetings and vote on the issues of determination of director remuneration. 8.18. 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	No	It is not customary to use company shares as a 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. 8.19. Schemes, under which directors receive remuneration in shares, share selection transactions or other rights to acquire shares or receive a fee based on changes of the share price should be approved before commencement of their application by shareholders at annual general shareholder meeting by adopting certain decision. Approval should be related to the scheme itself and shareholders should not decide on the share-based benefit granted under the scheme to individual directors. Shareholders should also approve any and all material amendments to the schemes before commencement of their application by adopting certain decision at annual general shareholder meeting. In such cases shareholders should be informed on any and all terms and condition of suggested amendments and be provided with an explanation of the effect of suggested amendments.		
8.20. The following issues should be subject to approval by the annual general shareholder meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The period, within which selection transaction should be effectuated. 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) 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. 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.		
8.21. 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 shareholder approval.		
8.22. Provisions of Articles 8.19 and 8.20 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.		

8.23. 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.		
Principle IX: The role of stakeholders in corporate management **The corporate management 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.**		
9.1. The corporate management framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	Corporate management system of the company ensures that all legally protected rights of the stakeholders are respected.
9.2. The corporate management framework should create conditions for the stakeholders to participate in corporate management in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate management include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate management and other important issues; employee participation in the company's share capital; creditor involvement in management in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate management process, they should have access to relevant information.		
Principle X: Information disclosure and transparency **The corporate management framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and management of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company;	Yes	Information on the financial results, economic activities and company management is regularly disclosed through press releases, interim and annual reports and financial statements. All documents are publicly posted on the company's website in Lithuanian and English.

4) Members of the company’s supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company’s regular operations; 7) Material issues regarding employees and other stakeholders; 8) Management structures and strategy. 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. 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. 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. 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.	No No	
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.	Yes	The company presents information through the information system used by Vilnius Stock Exchange in Lithuanian and in English simultaneously to the extent possible. The company strictly follows the principle not to disclose the information until such information is made public through the Exchange information system.
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.	Yes	The company posts all information intended for the shareholders simultaneously and to the same extent in Lithuanian and in English on the website of the company, thus ensuring unbiased timely access to the information.

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 on material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The company follows this recommendation; it posts all the information specified in the recommendation on its website.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The company follows this recommendation; interim financial statements, annual financial statements and annual report of the company are audited by an independent audit company (audit for the year 2010 is carried out by UAB Rimess).
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 shareholder meeting.	Yes	The company follows this recommendation; the audit company is proposed to the general shareholder meeting by the supervisory board of the company (upon the proposal of the board).
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 shareholder meeting.	Irrelevant	The audit company has not provided to the company other than audit services and has not received any payment for this from the company.

VILNIAUS DEGTINĖ

ANNO 1922

2011-03-22 Nr. 02-118

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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 the year 2010 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, ti the best of our knowledge, give a fair and true view of assets, liabilities, financial status and the profit for the period, and also that annual report shows fair business environment as well as description of the company's performance.

LIETUVOS RESPUBLIKA Akcinė bendrovė "VILNIAUS DEGTINĖ"

Director General Danas Kerbelis

Finance and Administration Director Audra Jauniškienė

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