

**STOCK COMPANY**  
**VILNIAUS DEGTINĖ**

Annual Financial Statements and Annual Statement  
for the year ended on the 31<sup>th</sup> December 2011

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## **Company Information**

### **AB Vilniaus degtinė**

Telephone: + 370 5 233 08 19

Telefax: + 370 5 231 50 52

Company number: 120057287

Registered at: Panerių Str. 47/Smolensko Str. 2, Vilnius, Lithuania

### **Management**

Juozas Daunys, Director General

Dalius Rutkauskas, Buying and selling director

Aistė Rasmussen, Production Manager

### **Board**

Darius Žaromskis

Juozas Daunys

Dalius Rutkauskas

Aistė Rasmussen

### **Auditor**

UAB Grant Thornton Rimess

### **Banks**

AB DNB bankas

Lithuanian branch of AS UniCredit Bank

AB SEB bankas

AB Swedbank

## Confirmation of the Responsible Persons

In accordance with the provisions Article 22 of Law on the Securities Market of the Republic of Lithuania and regulations for provision and preparation of periodical and additional information, confirmed by the Securities Commission of the Republic of Lithuania, we, the Director General of Juozas Daunys and Senior Accountant Renata Baliūnaitė of AB Vilniaus degtinė, confirm that as we know, the audited Annual Financial Statements of AB Vilniaus degtinė for the year ended on the 31st December, 2011, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, are realistic and properly show the assets, liabilities, financial condition, cash flows, profit or loss of AB Vilniaus degtinė, and Annual Statement of AB Vilniaus degtinė for the year ended on the 31st December, 2011 provides a clear review of business expansion and operation, condition of the company, together with the description of major risks and uncertainties which the company faces.

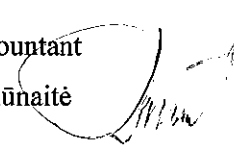
Director General

Juozas Daunys



Senior Accountant

Renata Baliūnaitė



Vilnius,

15 March, 2012

## Statement by the Board on Annual Financial Statements

The Board has discussed and confirmed Annual Financial Statements, Annual Statement by the management.

Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The Board believes that the accounting principles applied are appropriate, the Financial Statements in all relevant aspects reveal true and realistic condition.

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

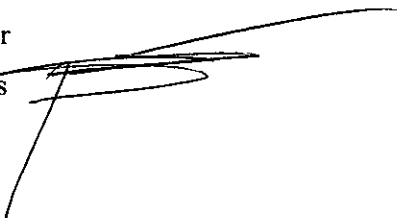
Chairman of the Board

Darius Žaromskis



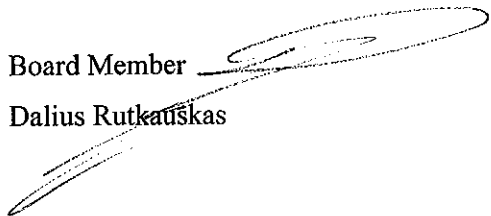
Board Member

Juozas Daunys



Board Member

Dalius Rutkauskas



Board Member

Aistė Rasmussen



Vilnius,

19 March, 2012



## 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, 2011, 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, 2011, 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 2011 and have not identified any material inconsistencies between the financial information included and the audited financial statements.

Director auditor  
Genadij Makušev  
Auditor's certification No. 000162

19 March, 2012  
40B A. Goštautas str., Vilnius

UAB Grant Thornton Rimess  
Audit company's certification No. 001332

**AB VILNIAUS DEGTINĖ**

Annual Financial Statements for the year ended on  
the 31<sup>th</sup> December 2011

CONFIRMED

by General Shareholder Meeting on 19 April, 2012

## Statement on Financial Position

As on the 31<sup>th</sup> of December

In LTL	Notes	31.12.2011	31.12.2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	14	32,034,720	28,022,090
Intangible assets	15	12,004,710	12,956,529
Financial assets	16	3,919,097	3,615,486
<b>Total non-current assets</b>		<b>47,958,527</b>	<b>44,594,105</b>
<b>Current assets</b>			
Inventories	17	9,072,892	7,246,521
Prepayments and future expenses	18	285,646	228,521
Trade receivables	19	25,664,040	24,135,874
Other receivables	20,13	516,307	439,951
Cash and cash equivalents	21	46,600	49,528
<b>Total current assets</b>		<b>35,585,485</b>	<b>32,100,395</b>
<b>TOTAL ASSETS</b>		<b>83,544,012</b>	<b>76,694,500</b>

Notes on pages 12-43 are an integral part of these financial statements.

Director General  
Vilnius,  
15 March, 2012



Juozas Daunys

**Statement on Financial Position (cont'd)**As on the 31<sup>st</sup> of December

In LTL	Notes	31.12.2011	31.12.2010
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	22	24,408,431	24,408,431
Legal reserve	22	2,440,843	2,440,843
Retained earnings (loss)		9,270,356	12,111,073
<b>Total equity</b>		<b>36,119,630</b>	<b>38,960,347</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	24	6,084,315	5,531,318
Governmental grants	25	8,175,209	4,137,227
Deferred tax liability	12	432,343	785,750
<b>Total non-current liabilities</b>		<b>14,691,867</b>	<b>10,454,295</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	24	13,570,853	13,258,187
Trade payables		6,786,787	4,553,753
Other payables	26	12,374,875	9,467,918
<b>Total current liabilities</b>		<b>32,732,515</b>	<b>27,279,858</b>
<b>Total liabilities</b>		<b>47,424,382</b>	<b>37,734,153</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>83,544,012</b>	<b>76,694,500</b>

Notes on pages 12-43 are an integral part of these financial statements.

Director General

Vilnius,  
15 March, 2012

 Juozas Daunys



**AB VILNIAUS DEGTINĖ**

*Annual Financial Statements for the year ended on  
the 31<sup>st</sup> December 2011*

**CONFIRMED**

*by General Shareholder Meeting on 19 April, 2012*

## Comprehensive Income Statement

As on the 31<sup>st</sup> of December

In LTL	Notes	Jan-Dec 2011	Jan-Dec 2010
		<hr/>	<hr/>
<b>Sales revenue</b>	5	<b>41,062,173</b>	<b>41,829,018</b>
Cost of sales		26,714,463	25,646,721
<b>Gross profit</b>	5	<b>14,347,710</b>	<b>16,182,297</b>
Other income	6	320,157	508,776
Sales and distribution expenses	7	5,264,998	6,252,281
Administrative expenses	8	12,073,437	10,283,885
Other expenses	6	72,432	35,963
<b>Result from operating activities</b>		<b>(2,743,000)</b>	<b>118,944</b>
Financial income	10	273,366	245,741
Financial expenses	10	724,490	766,454
<b>Profit (loss) before tax</b>		<b>(3,194,124)</b>	<b>(401,769)</b>
Corporate income tax	11,12	(353,407)	(65,848)
<b>Profit (loss) for the period</b>		<b>(2,840,717)</b>	<b>(335,921)</b>
		<hr/>	<hr/>
Basic and diluted earnings (loss) per share	23	(0.12)	(0.01)
<b>Other general income (expenditure)</b>		<b>0</b>	<b>0</b>
<b>Total general income (expenditure), less taxes</b>		<b>(2,840,717)</b>	<b>(335,921)</b>
		<hr/>	<hr/>

Notes on pages 12-43 are an integral part of these financial statements.

Director General

Vilnius,  
15 March, 2012



Juozas Daunys

## Statement of Changes in Equity

As on the 31<sup>st</sup> of December

In LTL	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total shareholders' equity
Capital and reserves as on 1 January 2010		24,408,431	2,440,843	0	12,446,994	39,296,268
Profit (loss) for January-December of 2010					(335,921)	(335,921)
Capital and reserves as on 31 December 2010		24,408,431	2,440,843	0	12,111,073	38,960,347
Capital and reserves as on 1 January 2011		24,408,431	2,440,843	0	12,111,073	38,960,347
Profit (loss) for January-December of 2011					(2,840,717)	(2,840,717)
Capital and reserves as on 31 December 2011	22	24,408,431	2,440,843	0	9,270,356	36,119,360

Notes on pages 12-43 are an integral part of these financial statements.

Director General  
Vilnius,  
15 March, 2012

Juozas Daunys

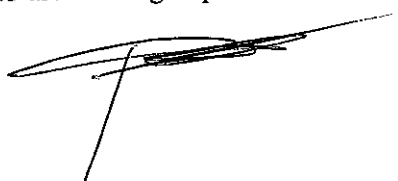
## Cash Flows Statement

As on the 31<sup>st</sup> of December

In LTL	Jan-Dec 2011	Jan-Dec 2010
Profit (loss) for the period	(2,840,717)	(335,921)
Depreciation and amortisation	3,733,776	3,901,728
Impairment of non-current assets	2,371,448	0
Impairment of trade receivables and other receivables	71,753	(457,089)
Net financial expenses	357,741	318,741
Gain (loss) on disposal of non-current assets	32,363	(89,937)
Corporate income tax expenses	(353,407)	(65,848)
Net cash flows from ordinary activities before changes in working capital	3,372,957	3,271,674
Change in inventories	(1,826,371)	442,823
Change in prepayments	(57,125)	1,051,631
Change in trade receivables and other receivables	(1,784,621)	5,399,902
Change in trade payables and other payables	5,130,270	(2,417,482)
Net cash flows from operating activities	1,462,153	4,476,874
Income tax paid	72,720	144,249
<b>Net cash flows from operating activities</b>	<b>4,907,830</b>	<b>7,892,797</b>
Proceeds from disposal of non-current assets	5,133	205,630
Acquisition of property, plant and equipment	(9,079,308)	(8,724,189)
Acquisition of intangible non-current assets	(5,996)	(8,715)
Loans granted	0	(511,015)
<b>Net cash flows from investing activities</b>	<b>(9,080,171)</b>	<b>(9,038,289)</b>
Repayment of loans	(1,866,739)	(1,866,739)
Loans received	4,250,813	0
Increase (decrease) of other financial liabilities	(899,722)	(223,447)
Financial lease payments	(608,007)	(367,975)
Grants received	4,037,982	4,137,227
Interest paid	(744,914)	(566,144)
Dividends paid	0	0
<b>Net cash flows from financing activities</b>	<b>4,169,413</b>	<b>1,112,922</b>
<b>Net cash flows from operating, investing and financing activities</b>	<b>(2,928)</b>	<b>(32,570)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>49,528</b>	<b>82,098</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>46,600</b>	<b>49,528</b>

Notes on pages 12-43 are an integral part of these financial statements.

Director General  
Vilnius,  
15 March, 2012



Juozas Daunys

## Notes

### 1 Reporting entity

AB Vilniaus Degtinė (hereinafter referred to as the Company) was registered on the 23<sup>rd</sup> of November 1990 and it is domiciled in Vilnius, Lithuania. The Company has a subsidiary in Rokiškis district.

AB Vilniaus Degtinė is a Lithuanian public listed company with shares traded on AB NASDAQ OMX Vilnius.

**As on the 31<sup>st</sup> of December 2011, 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
Other shareholders	5,298,956	1	5,298,956
<b>Total capital</b>	<b>24,408,431</b>	<b>1</b>	<b>24,408,431</b>

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 Rokiškis district.

The Company has major sales in the local market. The sales to the European Union and foreign markets are increasing. Their weight in the total sales volume are increasing.

The Company employed 150 staff members as on the 31<sup>st</sup> of December 2011 (169 staff members as on the 31<sup>st</sup> of December 2010).

### 2 Summary of significant accounting principles

#### Statement of compliance

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

The Financial Statements for 2011 are audited.

## **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 factors that are correspond to the present circumstances. On the basis of the assumptions and estimates mentioned, the judgements about carrying values of assets and liabilities that are not readily apparent from other sources are made. 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 on application of IFRS as adopted by the European Union that have significant effect on the financial statements, and estimates of significant adjustments in the next year are discussed in Note 4.

The accounting principles 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 into litas 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 into litas at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

#### **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.

## **Notes**

### **2 Summary of significant accounting principles (cont'd)**

#### **Non-derivative financial instruments (cont'd)**

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.

Loans, 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<sup>th</sup> of December 2011.

#### **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 and expenses of disassembling, transportation and production site cleaning.

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

## Notes

### 2 Summary of significant accounting principles (cont'd)

#### 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 8–20 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 financial statements.

#### 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.

## **Notes**

### **2 Summary of significant accounting principles (cont'd)**

#### **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 other lease is treated 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 distributed according to norms calculated considering the use of production capacities.

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

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

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

#### **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.



## **Notes**

### **2 Summary of significant accounting principles (cont'd)**

#### **Impairment**

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

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

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

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

#### **Calculation of recoverable amount**

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

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.

## **Notes**

### **2 Summary of significant accounting principles (cont'd)**

#### **Reversals of impairment**

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

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

#### **Dividends**

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

#### **Employee allowances**

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

#### **Provisions**

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

#### **Revenue**

##### **Sales of goods**

Revenue from the sale of goods is recognised in the income statement when significant risk and ownership is transferred to the buyer, when it is probable that economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Sales are recognised net of VAT, excise tax and price discounts directly related to the sales.

## **Notes**

### **2 Summary of significant accounting principles (cont'd)**

#### **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.

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

## **Notes**

### **2 Summary of significant accounting principles (cont'd)**

#### **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.

#### **Basic and diluted earnings (loss) per share**

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

## Notes

### 3 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 2011**

**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.

**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”**. When an entity's date of transition to IFRS is on, or after, the date of its functional currency normalisation date, the entity may elect to measure all assets and liabilities held before at fair value on the date of transition to IFRS.

Effective for annual periods beginning on or after 30 June 2011.

This amendment is not relevant to the Company.

## **Notes**

### **3 The influence of application of new standards, amendments of the standards in force and new explanations on financial statements (cont'd)**

#### **Standards and their interpretations announced by the International Accounting Standards Board but not yet adopted by the EU (cont'd)**

**Amendments to IFRS 7 “Disclosures – Transfers of Financial Assets”.** These amendments created new disclosure requirements in relation to derecognised financial assets. Effective for annual periods beginning on or after 30 June 2011. Earlier adoption is permitted. This amendment is not relevant to the Company.

**Amendments to IAS 12 “Deferred Tax: Recovery of Underlying Assets”.** This amendment introduce a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis. Effective for annual periods beginning on or after 31 December 2011. This amendment is not relevant to the Company.

#### **IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income.**

The amendment changes the classification of items presented in other comprehensive income. Those items that might be reclassified to profit or loss and those that will not be reclassified should be presented separately. The amendment affect only disclosures and it does not have any impact on Company's financial position or operating results. Effective for annual periods beginning on or after 1 July 2012. Earlier adoption is permitted. The Company considers the impact of this standard on its financial statements.

#### **IAS 19 Employee Benefits**

IASB issued many amendments of IAS 19: such essential changes as elimination of „corridor“ approach and minor corrections or editorial changes. Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted. The Company considers the impact of this standard on its financial position and operating results.

#### **IAS 27 Consolidated and Separate Financial Statements**

The changes of this standard set the accounting and disclosure requirement to investments to subsidiaries, jointly-controlled entities and investments to associates when the company prepares separate financial statements. Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted. This amendment is not relevant to the Company.

#### **IAS 28 Investments in Associates and Joint Ventures“.**

This standard is renamed as „Investments in Associates and Joint Ventures“ and sets the requirements for application of equity method for investments to associates and joint ventures. Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted. This amendment is not relevant to the Company.

## **Notes**

### **3 The influence of application of new standards, amendments of the standards in force and new explanations on financial statements (cont'd)**

#### **Standards and their interpretations announced by the International Accounting Standards Board but not yet adopted by the EU (cont'd)**

##### **IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities.**

This amendment clarifies the phrase “currently has a legally enforceable right to set-off” and clarifies the application of set-off criteria for amounts set-off under settlement systems (such as clearing houses).

Effective for annual periods beginning on or after 1 January 2014. Earlier adoption is permitted. This standard is not relevant to the Company.

##### **IFRS 7 Financial Instruments. Disclosures - enhancing disclosures about transfers of financial assets.**

The IASB issued these enhanced disclosure requirements so that users of financial statements will, in future, have a better understanding of transactions involving the transfer of financial assets (e.g., securitisations), including the possible effects of any risks that may remain with the transferor. The amendment affects only the disclosures.

Effective for annual periods beginning on or after 1 July 2011.

The Company considers the impact of this standard on its financial position and operating results.

##### **IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities**

The amendment sets the general disclosure requirements. The disclosures have to give the users information which is useful for assessing the present or potential effect for the entity's position. The amendments of IFRS 7 should be adopted retrospectively.

Effective for annual periods beginning on or after 1 January 2013.

This standard is not relevant to the Company.

##### **IFRS 9 Financial Instruments – Classification and Measurement**

The first phase of IFRS 9 Financial Instruments addresses the classification and measurement of financial instruments. The first phase of IFRS 9 will have a significant impact on (i) classification and measurement of financial assets (ii) changes in accounting for those entities which have chosen a fair value accounting though profit (loss) for financial liabilities. The Board's work on the other phases is ongoing and includes impairment of financial instruments and hedge accounting.

Effective for annual periods beginning on or after 1 January 2015. Earlier adoption is permitted. The Company considers the impact of this standard on its financial position and operating results.

## **Notes**

### **3 The influence of application of new standards, amendments of the standards in force and new explanations on financial statements (cont'd)**

#### **Standards and their interpretations announced by the International Accounting Standards Board but not yet adopted by the EU (cont'd)**

##### **IFRS 10 Consolidated financial statements**

IFRS 10 replaces the portion of IAS 27 Consolidated and separate financial statements, that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. The amendment of IFRS 10 sets the unified way of defining the control which will be applied for all the entities including special purpose entities.

Effective for annual periods beginning on or after 1 January 2013.

This standard is not relevant to the Company.

##### **IFRS 11 Joint Arrangements**

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 eliminates the proportional consolidation of jointly controlled entities.

Effective for annual periods beginning on or after 1 January 2013.

This standard is not relevant to the Company.

##### **IFRS 12 Disclosure of Interest in Other Entities**

IFRS 12 involves all the disclosures which were previously included in IAS 27, IAS 31 and IAS 28. Those disclosures are related with entity's investments to subsidiaries, joint arrangements, investments to associates and special purpose entities. This standard also requires additional disclosures.

Effective for annual periods beginning on or after 1 January 2013.

This standard is not relevant to the Company.

##### **IFRS 13 Fair Value Measurement**

This standard does not affect when fair value is used but rather describes how to measure fair value where it is required or permitted by IFRS.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

The Company considers the impact of this standard on its financial position and operating results.

##### **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

There can be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods (stripping activity asset). When the costs of the stripping activity asset and the inventory produced are not separately identifiable, production stripping costs are allocated between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure.

Effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

This standard is not relevant to the Company.



## **Notes**

### **4 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 estimates future cash flows from the debtors based on historical loss experience of debtors with similar credit risk. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### **Impairment losses on construction in progress**

Construction in progress is related with the construction of soft drinks production facilities discontinued in 1994 due to the change in strategic plans of the Company. The construction in progress is quarterly tested for impairment and based on management estimates the impairment loss is recognised for the unused equipment installed in the construction in progress. Depreciation of the construction in progress is calculated since 2009.

#### **Impairment losses on building and land**

In 2009 the building with land was purchased. After temporarily stopping the Company's strategic plans, in December 2011 property valuations have been carried out and LTL 2,371,448 impairment losses on property were recognised.

#### **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

### 5 Segment reporting

The Company is primarily involved in the production of and trade in alcoholic beverages. The Company produces and distributes alimentary rectified, denaturised ethyl alcohol, and 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, alimentary rectified ethyl alcohol, denaturised ethyl alcohol.

**Revenue and gross profit for 2011 are presented below**

In LTL	Alcoholic beverages	Rectified alcohol	Denaturised alcohol	Not allocated	Total
Revenue	33,038,204	4,209,282	52,056	3,762,631	41,062,173
Gross profit	13,649,923	192,748	24,904	480,135	14,347,710

**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

The Company's primary activities are carried out in the Lithuanian market. A part of its production is exported to the European Union (hereinafter –EU) countries and abroad. In January-December 2011, sales to EU and other foreign markets amounted to LTL 5,695,489 (in January-December 2010 – LTL 3,779,335). Considering the share of product sales in foreign markets in total revenue, no geographical segments are singled out.

## Notes

In LTL

<b>6</b>	<b>Income and expenses of other activities</b>
	Lease of premises and utilities
	Income from sales of materials and spare parts
	Result of the sales of non-current assets
	Other income
	Total other income
	Other expenses
	Loss of sales of non-current assets
	Total other expenses
	Net income and expenses of other activities

<u>Jan-Dec 2011</u>	<u>Jan-Dec 2010</u>
110,484	109,596
96,922	152,750
0	162,890
112,751	83,540
<u>320,157</u>	<u>508,776</u>
(40,101)	(35,963)
(32,331)	0
<u>(72,432)</u>	<u>(35,963)</u>
<u>247,725</u>	<u>472,813</u>

In LTL

<b>7</b>	<b>Sales and distribution expenses</b>
	Advertising expenses
	Salaries and social security
	Transportation expenses
	Market research expenses
	Packaging expenses
	Other
	Total sales and distribution expenses

<u>Jan-Dec 2011</u>	<u>Jan-Dec 2010</u>
3,341,986	3,987,118
956,151	1,125,841
392,605	478,503
84,263	115,422
88,811	67,968
401,182	477,429
<u>5,264,998</u>	<u>6,252,281</u>

## Notes

	Jan-Dec 2011	Jan-Dec 2010
In LTL		
<b>8 Administrative expenses</b>		
Salaries and social security	3,145,330	3,485,553
Operating and other taxes	1,089,896	1,192,989
Repairs and maintenance	217,382	632,910
Amortisation and depreciation	2,196,272	2,103,606
Consulting and training expenses	583,145	601,821
- including auditing services	53,519	53,519
Maintenance of cargo vehicles	232,891	352,910
Security expenses	312,000	363,340
Communications and IT maintenance expenses	145,627	140,528
Utilities	608,961	283,437
Impairment of non-current assets	2,371,448	0
Other	1,170,485	1,126,791
<b>Total administrative expenses</b>	<b>12,073,437</b>	<b>10,283,885</b>

	Jan-Dec 2011	Jan-Dec 2010
In LTL		
<b>9 Personnel expenses</b>		
Wages and salaries	3,904,496	4,909,732
Guarantee fund contributions	3,997	4,933
Social security contributions	1,208,059	1,524,446
<b>Total personnel expenses</b>	<b>5,116,552</b>	<b>6,439,111</b>

Personnel expenses include accrued vacation compensations with social security taxes.

Redundancy pays for January-December 2011, inclusive of social security taxes and guarantee fund, amounted to LTL 443,406 (in January-December 2010 - LTL 339,419).

Wages and salaries for the management (directors) together with social security and guarantee fund contributions in January-December 2011 amounted to LTL 626,536 (in January-December 2010 - LTL 558,152), LTL 122,572 of which were for redundancy pays together with social security and guarantee fund contributions. No loans were granted to the management (directors). There were no other significant transactions, payable or receivable amounts.

Average number of staff members on payroll for 2011 was 149 (179 for 2010).

Average number of managers for 2011 was 4 (5 managers for 2010).

## Notes

In LTL

### 10 Financial income and expenses

Interest income

Foreign exchange gain

Other income

Total financial income

Interest on loans and lease liabilities

Foreign exchange loss

Other

Total financial expenses

Financial income and expenses, net

	Jan-Dec 2011	Jan-Dec 2010
	268,947	245,741
	3,219	0
	1,200	0
	<u>273,366</u>	<u>245,741</u>
	(626,687)	(588,084)
	0	(3,989)
	<u>(97,803)</u>	<u>(174,381)</u>
	<u>(724,490)</u>	<u>(766,454)</u>
	<u>(451,124)</u>	<u>(520,713)</u>

In LTL

### 11 Corporate income tax expenses

Current tax

Change in deferred income tax

Total corporate income tax expenses

	Jan-Dec 2011	Jan-Dec 2010
	0	0
	<u>(353,407)</u>	<u>(65,848)</u>
	<u>(353,407)</u>	<u>(65,848)</u>

### Review of valid profit tax rate

In LTL

Profit before tax

Profit tax, applying valid tax rate

Deducted amount of charity expenses

R&D expenses

Taxable income

Non-taxable income

Other expenses, which do not reduce taxable income

Other expenses, which reduce taxable income

	Jan-Dec 2011	Jan-Dec 2010
	(3,194,124)	(401,769)
	(15.0%) (479,119)	(15.0%) (60,265)
	0	0.6% 2,310
	(1.7) (54,638)	(14.0%) (56,358)
	0.0 3,300	0
	(0.0) (796)	0
	4.9 156,246	18.3 % 73,352
	0.7 21,600	(6.2%) (24,887)
	<u>(11.1) (353,407)</u>	<u>(16.3%) (65,848)</u>

## Notes

### 12 Deferred tax

	Jan-Dec 2011		Jan-Dec 2010	
In LTL	Temporary differences	Deferred tax (15%)	Temporary differences	Deferred tax (15%)
Impairment of other receivables	0	0	496,482	74,472
Impairment of trade receivables	188,082	28,212	115,428	17,314
Impairment of construction in progress	764,088	114,613	668,577	100,287
Impairment of building and land	2,371,448	355,718	0	0
Accrued social security expenses for vacation reserve	77,724	11,659	110,404	16,561
Tax losses	3,351,122	502,668	1,891,832	283,775
<b>Total deferred tax asset</b>		<b>1,012,870</b>		<b>492,409</b>
Difference in depreciation of property, plant and equipment	(2,751,249)	(412,688)	(2,654,326)	(398,149)
Difference in amortisation of intangible assets	(6,547,041)	(982,056)	(5,455,867)	(818,380)
Carrying value of non-current assets that are subject to investment relief	(336,462)	(50,469)	(410,868)	(61,630)
<b>Total deferred tax liability</b>		<b>(1,445,213)</b>		<b>(1,278,159)</b>
<b>Net deferred tax</b>		<b>(432,343)</b>		<b>(785,750)</b>

### Change in the deferred tax

In LTL	Jan-Dec 2011	Jan-Dec 2010
Deferred tax liability as of January 1	(785,750)	(851,598)
Deferred tax change	353,407	65,848
<b>Deferred tax liability as on 31 December</b>	<b>(432,343)</b>	<b>(785,750)</b>

### 13 Corporate income tax

In LTL	Jan-Dec 2011	Jan-Dec 2010
Overpaid corporate income tax (liability) as of 1 January	72,720	216,969
Corporate income tax for the period	0	0
Reckoned-in to cover liability of other taxes	72,720	216,969
Corporate income tax paid	0	72,720
<b>Overpaid corporate income tax (liability) as of 31 December</b>	<b>0</b>	<b>72,720</b>

**AB VILNIAUS DEGTINĖ**

*Annual Financial Statements for the year ended on  
the 31<sup>st</sup> December 2011*

**CONFIRMED**

*by General Shareholder Meeting on 19 April, 2012*

## Notes

### 14 Property, plant and equipment

In LTL	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Constructio n in progress	Other tangible assets	Total
Cost as of 1 January 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)
Reclassificationnns	0	0	0	0	0	0	0
Cost as of the 31 Decemb 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	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
Cost as of 1 January 2011	22,190,514	22,540,337	1,302,761	2,219,357	3,631,789	1,694,395	53,579,153
Additions	1,730,870	7,051,549	0	11,096	404,020	0	9,197,535
Disposals	(6,689)	(47,942)	(99,899)	(50,614)	0	0	(205,144)
Reclassificationnns	0	1,152,366	0	0	0	(1,152,366)	0
Cost as of 31 December 2011	23,914,695	30,696,310	1,202,862	2,179,839	4,035,809	542,029	62,571,544
Accumulated depreciation as of 1 January 2011	8,376,235	13,690,561	839,349	1,982,341	668,577	0	25,557,063
Depreciation	742,771	1,633,471	186,868	117,340	95,511	0	2,775,961
Impairment loss	2,371,448	0	0	0	0	0	2,371,448
Disposals	(6,688)	(47,936)	(62,436)	(50,588)	0	0	(167,648)
Accumulated depreciation as of 31 December 2011	11,483,766	15,276,096	963,781	2,049,093	764,088	0	30,536,824
Net book value as of 31 December 2011	12,430,929	15,420,214	239,081	130,746	3,271,721	542,029	32,034,720

## Notes

### 14 Property, plant and equipment (cont'd)

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.

In December 2011 property valuations at the market price of a building and land acquired in 2009 have been carried out and recognized by LTL 2,371,448 impairment losses.

#### Distribution of depreciation costs

In LTL	Jan-Dec 2011	Jan-Dec 2010
Cost of sales	1,324,235	1,604,865
Inventories	173,170	157,661
Administrative and other expenses	1,278,556	1,164,530
<b>Total</b>	<b>2,775,961</b>	<b>2,927,056</b>

### 15 Non-current intangible assets

In LTL	Patents, licences	Software	Other	Total
Cost as of 1 January 2010	173,096	549,135	18,913,672	19,635,903
Additions	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	0	28,989	945,683	974,672
Disposals	(131,776)	(12,046)	0	(143,822)
Accumulated amortisation as of 31 Dec 2010	41,320	513,618	5,989,329	6,544,267
<b>Net book value as of 31 December 2010</b>	<b>0</b>	<b>32,186</b>	<b>12,924,343</b>	<b>12,956,529</b>
Cost as of 1 January 2011	41,320	545,804	18,913,672	19,500,796
Additions	4,500	1,496	0	5,996
Disposals				
Cost as of 31 December 2011	45,820	547,300	18,913,672	19,506,792
Accumulated amortisation as of 1 January 2011	41,320	513,618	5,989,329	6,544,267
Amortisation	875	11,256	945,684	957,815
Disposals	0	0	0	0
Accumulated amortisation as of 31 Dec 2011	42,195	524,874	6,935,013	7,502,082
<b>Net book value as of 31 December 2011</b>	<b>3,625</b>	<b>22,426</b>	<b>11,978,659</b>	<b>12,004,710</b>

All amortisation expenses are included under operating expenses.



## Notes

	In LTL	31.12.2011	31.12.2010
<b>16 Financial assets</b>			
Long-term loans granted		3,919,097	3,615,486
<b>Total financial assets</b>		<b>3,919,097</b>	<b>3,615,486</b>
<p>Long-term loans granted: LTL 3,164,077 (EUR 916,380) and interest thereon amounting to LTL 755,020 (EUR 218,669) to an associated company. Term of repayment of the loan and interest – August 2015. Including the term of short-term loans LTL 34,528 (EUR 10,000) and interest to associated company prolonged till August 2015. The loan was reclassified to long-term loan.</p>			
	In LTL	31.12.2011	31.12.2010
<b>17 Inventories</b>			
Raw materials		5,980,409	4,472,447
Finished goods		2,009,400	1,790,775
Goods for resale		1,000,432	921,474
Work in progress		82,651	61,825
<b>Total inventories</b>		<b>9,072,892</b>	<b>7,246,521</b>
<p>On the 31st of December, 2011, grain was stored by the third parties. The value of the grain stored – LTL 458,452. On the 31st of December, 2010 there were no inventories stored by the third parties.</p>			
	In LTL	31.12.2011	31.12.2010
<b>18 Prepayments and deferred expenses</b>			
Prepayments to suppliers		52,767	28,518
Deferred advertising expenses		59,228	67,535
Deferred insurance and subscription		96,945	71,929
Other		76,706	60,539
<b>Total prepayments and deferred expenses</b>		<b>285,646</b>	<b>228,521</b>
	In LTL	31.12.2011	31.12.2010
<b>19 Trade receivables</b>			
Trade receivables		25,852,122	24,251,302
Impairment allowance for bad debts		(188,082)	(115,428)
<b>Net trade receivables</b>		<b>25,664,040</b>	<b>24,135,874</b>

## Notes

### 19 Trade receivables (cont'd)

#### Change in impairment of receivables for bad debts

In LTL	31.12.2011	31.12.2010
Impairment allowance for bad debts as of 1 January	(115,428)	(236,076)
Reverse of impairment allowance for bad debts	(106,757)	0
Impairment allowance for bad debts	34,103	120,648
<b>Impairment allowance for bad debts at the end of the period</b>	<b>(188,082)</b>	<b>(115,428)</b>

#### Analysis of trade receivables based on the terms of payment on the 31<sup>st</sup> December, 2011

In LTL	Total	Receivables of term not yet ended				Delayed receivables		
		91 day or more	from 61 to 90 days	from 31 to 60 days	up to 30 days	up to 90 days	from 91 to 180 days	181 day or more
Receivables from companies not from the group	22,689,126	0	288,532	20,241,173	1,887,049	82,131	2,159	188,082
Receivables from companies from the group	3,162,996	232,860	34,122	65,250	2,191,126	297,253	0	342,385
Reduction of value for debts	(188,082)							(188,082)
<b>Total trade receivables</b>	<b>25,664,040</b>	<b>232,860</b>	<b>322,654</b>	<b>20,306,423</b>	<b>4,078,175</b>	<b>379,384</b>	<b>2,159</b>	<b>342,385</b>

### 20 Other receivables

In LTL	31.12.2011	31.12.2010
Loans granted	0	34,528
Amounts deposited for the guarantee to the Tax Inspectorate	300,480	302,480
Overpaid income tax	0	72,720
Up to 1 year deposited the amount of bank guarantee	41,230	0
Other receivables	174,597	30,223
Doubtful receivables	495,581	496,482
<b>Total other receivables before write-down allowance</b>	<b>1,011,888</b>	<b>936,433</b>
Impairment	(495,581)	(496,482)
<b>Total other receivables, net</b>	<b>516,307</b>	<b>439,951</b>

## Notes

### 20 Other receivables (cont'd)

The amount deposited for guarantee to the Tax Inspectorate is a guarantee for payment of excise tax for alcohol products exported to the countries of the European Union.

Clarification of short-term loans granted and re-classification of its interest into non-current financial assets is provided in Note 16.

#### Change in impairment allowance of receivables

In LTL	31.12.2011	31.12.2010
Impairment allowance for bad debts and other receivables as of 1 January	(496,482)	(832,923)
Reverse of impairment allowance for bad debts	901	336,441
<b>Impairment allowance for bad debts and other receivables at the end of the period</b>	<b>(495,581)</b>	<b>(496,482)</b>

In LTL	31.12.2011	31.12.2010
<b>21 Cash and cash equivalents</b>		
Cash at bank and in hand	46,600	49,528
<b>Total cash and cash equivalents</b>	<b>46,600</b>	<b>49,528</b>

### 22 Capital and reserves

#### Share capital

The share capital is made of 24,408,431 ordinary shares with the nominal value of LTL 1 each, and the total share capital is LTL 24,408,431, fully paid. The holders of the ordinary shares are entitled to one vote per share in the shareholders' meeting and are entitled to dividends as they are declared and to capital repayment in case of reduction of capital. 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 at least 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.

## Notes

### 23 Basic and diluted earnings (loss) per share

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

	Jan-Dec 2011	Jan-Dec 2010
Number of shares	24,408,431	24,408,431
Net result for the period attributable to the equity holders, in LTL	(2,840,717)	(335,921)
<b>Basic and diluted earnings (loss) per share, in LTL</b>	<b>(0.12)</b>	<b>(0.01)</b>

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

### 24 Interest bearing loans and borrowings

In LTL	31.12.2011	31.12.2010
<b>Non-current liabilities</b>		
Bank loans	5,837,959	4,966,959
Financial lease (leasing) liabilities	246,356	564,359
<b>Total non-current liabilities</b>	<b>6,084,315</b>	<b>5,531,318</b>
<b>Current liabilities</b>		
Overdraft	9,872,145	10,771,867
Bank and other loans	3,379,813	1,866,739
Financial lease (leasing)	318,895	619,581
<b>Total current liabilities</b>	<b>13,570,853</b>	<b>13,258,187</b>
<b>Total</b>	<b>19,655,168</b>	<b>18,789,505</b>

### Terms and repayment schedule

In LTL	Total	Up to 1 year	1-5 years	Over 5 years
LTL 7,000,000 overdraft – fluctuating interest rate: 3-month VILIBOR+margin	4,872,145	4,872,145		
Loan of EUR 3,015,412 (LTL 10,411,615) – 3-month fluctuating LIBOR EUR + margin	4,966,959	1,295,312	3,671,647	
EUR 1,448,100 (LTL 5,000,000) overdraft – fluctuating interest rate: 3-month EURIBOR + margin	5,000,000	5,000,000		
EUR 1,736,272 (LTL 5,995,000) credit – fluctuating interest rate: 3-month EURIBOR + margin	4,250,813	2,084,501	2,166,312	
Financial lease (leasing) – 3-month variable EURIBOR+margin	565,251	318,895	246,356	
<b>Total financial liabilities</b>	<b>19,655,168</b>	<b>13,570,853</b>	<b>6,084,315</b>	<b>0</b>

## Notes

### 24 Interest bearing loans and borrowings (cont'd)

Term of repayment of the long-term loan is December 2015, of overdraft (LTL 7,000,000 and EUR 1,448,100) – 31 August 2012. Under financial lease agreements, the Company's assets consist of plant and equipment and vehicles. Financial lease terms are up 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 – December 2015, financial liability limit agreement was terminated on the 31st December, 2011.

In order to secure the bank loans, the Company has pledged its assets. For further comments refer to Note 29.

In LTL	31.12.2011	31.12.2010
<b>25 Governmental grants</b>		
Balance value at the beginning of the period	4,137,227	0
Grants received	4,037,982	4,137,227
Used within the period	0	0
Balance value at the end of the period	<u>8,175,209</u>	<u>4,137,227</u>

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	31.12.2011	31.12.2010
<b>26 Other payables</b>		
Payable excise tax	8,584,426	5,938,245
Payable VAT	2,894,271	2,657,368
Vacation reserve and social security	481,807	665,968
Taxes payable	197,791	75,254
Accrued expenses	134,078	71,645
Other payables	82,502	59,438
<b>Total other payables</b>	<u>12,374,875</u>	<u>9,467,918</u>

## **Notes**

### **27 Financial risk management**

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 contracts for bank overdrafts in LTL and EUR.

## Notes

### 27 Financial risk management (cont'd)

#### Market risk

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

#### Interest rate risk

The Company's borrowings are subject to variable interest rates related to EURIBOR, LIBOR EUR and VILIBOR. As of 31 December 2011, 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 does not face 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.

#### 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 Board 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.

### 28 Related party transactions

#### Related parties of the Company are:

- parties that control, are controlled by or are 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.

## Notes

### 28 Related party transactions (cont'd)

#### 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, person	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 Landut	Belvedere group company
PHP Wiesław Wawrzyniak	Belvedere group company
Moncigale S.A.S.	Belvedere group company
Gognac Gautier	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
Person	Shareholder, chairman of the board
Other related party	Member of the board, member of management



## Notes

### 28 Related party transactions (cont'd)

#### Sales to and purchases from related parties

	Type of transaction	Jan-Dec 2011	Jan-Dec 2010
<b>Purchases from:</b>			
Belvedere group companies	Purchase of services and other	477,516	640,348
Belvedere group companies	Purchase of inventories	657,569	803,805
Shareholder	Purchase of services	309,600	309,600
Parent company	Purchase of inventories	63,206	0
Ultimate parent company	Purchase of inventories	0	24,070
<b>Total purchases</b>		<b>1,507,891</b>	<b>1,777,823</b>
<b>Sales to:</b>			
Belvedere group companies	Sales of production incl.excise tax	42,026,550	42,198,657
Belvedere group companies	Sales of services and other	211,595	147,505
Shareholder	Sales of inventories	316	58
Parent company	Sales of production incl.excise tax	0	131,308
Ultimate parent company	Other income	266,261	243,025
Other related party	Sales of non-current asset	1,000	0
Other related party	Sales of services	6,010	6,160
<b>Total sales</b>		<b>42,511,732</b>	<b>42,726,713</b>
Excise tax		27,816,444	30,967,736
<b>Total sales net of excise tax</b>		<b>14,695,288</b>	<b>11,758,977</b>

## Notes

### 28 Related party transactions (cont'd)

#### Balances outstanding with related parties

	31.12.2011	31.12.2010
<b>Trade receivables</b>		
From Belvedere group companies	3,126,723	3,155,343
From ultimate parent company	3,919,097	3,650,151
From parent company	36,273	99,479
Other related party	942	524
<b>Total trade receivables</b>	<b>7,083,035</b>	<b>6,905,497</b>
<b>Trade payables</b>		
To ultimate parent company	45,242	45,242
To Belvedere group companies	147,157	243,769
<b>Total trade payables</b>	<b>192,399</b>	<b>289,011</b>

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

Interest rates and all outstanding related party transactions are priced at market prices.

### 29 Off-balance liabilities

#### As a security for the loan facilities, the following assets have been pledged by the Company

In LTL	31.12.2011	31.12.2010
Carrying amount of pledged buildings and structures	10,102,429	10,894,956
Carrying amount of pledged trademarks	11,978,659	12,924,343
Carrying amount of pledged inventories	9,072,892	7,246,521

The Company has transferred to the Bank the existing and further monetary funds deposited on the accounts with bank which were equal to LTL 28,202 as on the 31<sup>st</sup> of December 2011 (LTL 13,650 as on the 31<sup>st</sup> of December 2010) and amounts receivable from its buyers that were equal to LTL 25,664,040 on the 31<sup>st</sup> December 2011 (LTL 24,135,874 as on the 31<sup>st</sup> December 2010), and possessed rights of land lease in order to secure fulfilment of its liabilities under the Crediting Contract.

Short-term guarantee granted using the funds of financial liabilities limit, which was related to implementation of the Project "Using distillery refuse (broga) for the production of electric power" and which was granted to Lithuanian Business Support Agency, expired in 31 December 2011.

The Company controls and executes the financial liabilities, indices set by the bank and additional requirements.

## Notes

### 30 Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties at market prices but not 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 on the 31<sup>st</sup> of December 2011 does not significantly differ from their carrying amount, except for non-current real estate, the depreciated cost-price of which significantly differs from its fair value.

#### Financial assets as on the 31th of December 2011

In LTL	Carrying amount	Fair value
Granted long-term loans and other receivables	3,919,097	3,919,097
Advance payments and deferred expenditure	285,646	285,646
Trade debtors	25,664,040	25,664,040
Other amounts receivable	516,307	516,307
Cash and cash equivalents	46,600	46,600
<b>Total</b>	<b>30,431,690</b>	<b>30,431,690</b>

#### Financial liabilities as on the 31th of December 2011

In LTL	Carrying amount	Fair value
Loan and other interest-bearing amounts	19,655,168	19,655,168
Trade creditors	6,786,787	6,786,787
Other amounts payable	12,374,875	12,374,875
<b>Total</b>	<b>38,816,830</b>	<b>38,816,830</b>


### 31 Events after the reporting period

There were not events occurred after the reporting period that would influence financial results of the Company.

Director General

Vilnius,

15 March, 2012



Juozas Daunys

## Annual Statement

### 1 Company Information

	Public stock company Vilniaus Degtinė (hereinafter – the Company)
Legal form	Public stock company
Date and place of registration	23rd of November 1990, Vilnius branch of the State Enterprise Centre of Registers
Code	120057287
Registered office address	Panerių Str. 47/Smolensko Str. 2, Vilnius, Lithuania
Telephone	+ 370 5 233 08 19
Fax	+ 370 231 5052
E-mail	<a href="mailto:vd@degtine.lt">vd@degtine.lt</a>
Website	<a href="http://www.degtine.lt">www.degtine.lt</a>
Branch	Obeliai distillery
Branch address	Audronių I village, Obeliai local authority, Rokiškis district, Lithuania
Telephone	+ 370 458 78723
Fax	+ 370 458 78723
E-mail	<a href="mailto:obeliai@degtine.lt">obeliai@degtine.lt</a>

The Company produces and sells vodkas, liqueurs, and other alcoholic beverages, alimentary rectified and methylated ethyl alcohol, alimentary distilled ethyl alcohol, imports and sells alcoholic products made by producers of other countries. Obeliai spirit distillery, a branch of AB Vilniaus degtinė, makes alimentary distilled grain ethyl alcohol. When made, alimentary distilled ethyl alcohol is rectified at AB Vilniaus degtinė.

### 2 Authorised Capital and Securities

The structure of the authorised capital

Type of shares	Number of shares, pcs.	Nominal value in LTL	Total nominal value in LTL	Portion in the authorised capital, %
Ordinary registered shares	24,408,431	1	24,408,431	100.00

Ordinary registered shares the Company's authorised capital consists of grant 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 converted into shares. The Company has not acquired and does not hold any shares of its own.

Total number of shareholders as on the 31st December 2011 was 273.

## Annual Statement

### 2 Authorised Capital and Securities (cont'd)

Shareholders who held or managed more than 5 percent of the authorised capital of the issuer as of the 31st December 2011

Shareholder's name, surname or company name, registered office address, company code	Number of the shares the shareholder holds under the ownership right, pcs.	Portion of the authorised capital held, %	Portion of votes held, %
SOBIESKI DYSTRIBUCJA SP. Z O. O. ul. Bellottiego 1, 01-022, Warszawa, Poland, 230030460	16,668,632	68.29	68.29
ARŪNAS TUMA	2,382,077	9.76	9.76
DARIUS ŽAROMSKIS	2,440,843	10.00	10.00
SKANDINAVISKA ENSKILDA BANKEN CLIENTS ACCOU Sergels Torg 2, 10640 Stockholm, Sweden, 502032908101	2,254,262	9.24	9.24

None of the company's shareholders have any special rights of control. There are no restrictions of the rights to vote. There are no agreements between the shareholders, which might cause the transfer of securities and (or) right of vote to be restricted.

Since the 25th of March 2002, ordinary registered shares of AB Vilniaus degtinė are listed in the Secondary trading list of AB NASDAQ OMX Vilnius. All 24,408,431 pcs. of shares are traded. There are no restrictions concerning transfer of the shares. The Company has signed an agreement with AB FMI Finasta on administration of accounting of issued securities.

#### Securities trading history

Indices	2008 January - December	2009 January - December	2010 January - December	2011 January - December
Opening price, LTL	3.500	0.800	1.400	1.519
Maximum price, LTL	3.500	1.500	2.000	1.519
Minimum price, LTL	0.800	0.500	1.170	0.694
Last session, LTL	0.800	1.400	1.519	0.863
Turnover, pcs.	67,163	104,134	120,659	80,571
Turnover, LTL million	0.14	0.11	0.18	0.09
Capitalisation on December 31, LTL million	19.53	34.17	37.08	21.07

Source: [www.nasdaqomxbaltic.com/market](http://www.nasdaqomxbaltic.com/market)

There were no OTC transactions registered in 2011. Detailed information on trade of the shares of AB Vilniaus degtinė can be found on the securities exchange NASDAQ OMX Vilnius.

**AB VILNIAUS DEGTINĖ**

Annual Statement for the year ended on  
the 31<sup>st</sup> December 2011

CONFIRMED

by General Shareholder Meeting on 19 April, 2012

## Annual Statement

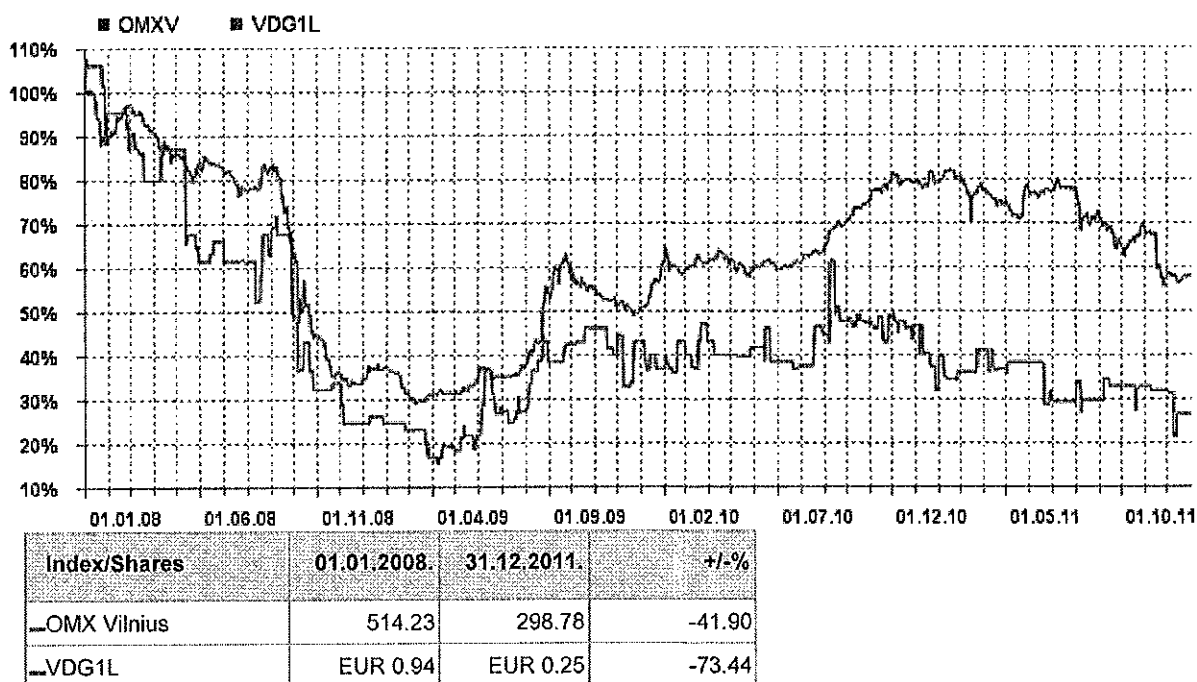
### 2 Authorised Capital and Securities (cont'd)

Trade in the shares of AB „Vilniaus degtinė“ on NASDAQ OMX Vilnius in 2008-2011



Source: [www.nasdaqomxbaltic.com/market](http://www.nasdaqomxbaltic.com/market)

Comparison of the price of the shares of AB Vilniaus degtinė (VDG1L) with OMX Vilnius (OMXV) index in 2008-2011



Source: [www.nasdaqomxbaltic.com/market](http://www.nasdaqomxbaltic.com/market)

## Annual Statement

### 3 Company Management

The company has the general shareholders' meeting, collegial supervisory body – the supervisory council, collegial management body – the board and one-person management body – the head of the company (Director General).

The supervisory council of the company consists of 3 members. It is elected by the general shareholders' meeting for a period of four years. If individual members of the supervisory council must be elected, they are elected only for the period before the end of the term of the current supervisory council.

The board of the company consists of 4 members. It is elected by the supervisory council for a term of four years. The supervisory council can recall the board in corpore or individual members before the end of the term. A member of the board may resign from the duties before the end of the term by notifying the company about it in writing at least 14 days in advance.

The head of the company is elected and recalled or dismissed from his/her duties, his/her salary is determined, job regulations are approved, incentives are awarded and penalties imposed by the board of the company.

The head of the company solely acts on behalf of the company in company's relations with other persons.

7 meetings of the Board, 7 meetings of the supervisory council and 1 shareholder meeting took place in 2011. Decisions important to the Company were made during these meetings.

Articles of Association of the Company are amended in accordance with the Company Law of the Republic of Lithuania. The most recent working of the articles of association was registered at the Register of Legal Entities of the Republic of Lithuania on the 11th of August 2008.

Members of the collegial supervision and management bodies and general manager of AB Vilniaus degtinė as on the 31st of December 2011

Name, surname	Position	Participation in the authorised capital of the issuer, percent	Term
Dariusz Jamiola	Chairman of supervisory council	-	2008-03 – 2012-03
Tomasz Kowalski	Member of supervisory council	-	2008-03 – 2012-03
Ilona Šerlatienė	Member of supervisory council	-	2008-03 – 2012-03
Darius Žaromskis	Chairman of the Board	10.00	2011-12 – 2015-12
Juozas Daunys	Board member, Director General	-	2011-12 – 2015-12
Dalius Rutkauskas	Board member, Director of Commerce	-	2011-12 – 2015-12
Aistė Rasmussen	Board member, Director of Production	-	2011-12 – 2015-12
Domas Kačinskas	Board member, Director General	-	2011-04 – 2011-07
Renaldas Barauskas	Board member, Deputy Director General	-	2009-03 – 2011-01
Danas Kerbelis	Board member, Director General	-	2007-12 – 2011-04
Audra Jauniškienė	Board member, Director of Finance and Administration	-	2007-12 – 2011-05
Juozas Daunys	Director General	-	from 07-07-2011
Domas Kačinskas	Director General	-	08-04-2011 - 05-07-2011
Danas Kerbelis	Director General	-	18-07-2005 - 07-04-2011

## **Annual Statement**

### **3 Company Management (cont'd)**

In 2011 the following persons resigned from members of the board and positions held in the Company: Renaldas Barauskas, Danas Kerbelis, Audra Jauniškienė, Domas Kačinskis. New member were appointed to their positions.

On the 4th of December 2011 the Supervisory Council re-elected members of the Board for the period of four years. On the 22nd December 2011 the members of the Board unanimously elected Darius Žaromskis as the Chairman of the Board.

Upon the decision of the board adopted on the 5th of July 2011, Juozas Daunys was appointed to the position of the Director General.

He started the execution of his appointment on the 7th July 2011.

The members of collegial bodies are not remunerated from the funds of the Company. The Company has not granted any loans or guarantees to members of collegial bodies. Services purchased from them amounted to LTL 309.600 (exclusive of taxes). There were no other significant transactions, significant receivable or payable amounts.

The remuneration for management (directors) is revealed in Clause 8.

There are no significant agreements the Company is a party to that would come into force, change or be terminated in case of change in the Company's control. There are no agreements between the Company and members of its collegial management and supervision bodies or employees providing for payment of compensation in case of their resignation or dismissal without a good reason or in case if their employment is discontinued due to a change in the Company's control.

When carrying out its duties under legal instruments regulating the securities market, the Company has announced information on major events concerning the issuers activities:

- - 2011/01/26 Change of a member of the board and deputy director general;
- - 2011/02/28 Interim performance result of 12 months of 2010;
- - 2011/03/09 Convocation of an ordinary General Shareholder Meeting;
- - 2011/03/25 Draft decisions of the ordinary General Shareholder Meeting;
- - 2011/04/06 Decisions of the ordinary General Shareholder Meeting;
- - 2011/04/06 Annual information for the year 2010;
- - 2011/04/08 Change of the Director General;
- - 2011/05/27 Resignation of the Director of Finance and Administration and change of members of the board;
- - 2011/06/01 Interim performance result of Q1 2011;
- - 2011/07/05 Change of Director General and a member of the Board
- - 2011/08/31 Interim performance result of H1 2011;
- - 2011/11/28 No direct influence to the Company by the nacionalisation of bank Snoras;
- - 2011/11/28 Interim performance result of 9 months of 2011.



## Annual Statement

### 3 Company Management (cont'd)

Detailed information in major events can be found on the Company's website [www.degtine.lt](http://www.degtine.lt) or the website of ,NASDAQ OMX Baltic [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com).

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

- Association of Lithuanian Chambers of Commerce, Industry and Crafts (ALCCIC);
- Lithuanian Food Exporters Association;
- Alcohol Distributing Companies Association;
- Package Handlers Association.

### 4 Production Activities

Key activity of the Company is production of vodka, flavoured vodka, bitter, liqueur and other alcoholic drinks. In 2011, the Company's technologists developed and marketing specialists launched the following twenty nine new products:

- vodkas: Sobieski Classic, Pshenichnayja, Ruskij dux na moloke;
- flavoured vodkas: Sobieski Blitz, Admiral lemon flavour, ,Admiral orange flavour, ,Ruskij dux kliukvennayja;
- spirits: Old Vilnius, ,Mama vodka, Monte Cristo, ,Kadaka gin, ,Sobieski like 15 %;
- liqueurs: ,Žiemos pasaka (Winter Fairytale), Trollberry bruknė spanguolė (Trollberry cowberry-cranberry), Trollberry vyšnia mėlynė (Trollberry cherry-bilberry), Slyvų ir juodųjų serbentų (Plum and Black Currant);
- bitter Old Vilnius Starka;
- brandy Queen Barbora and others.

Production produced

Name	Measurement unit	2011 January - December	2010 January - December	Change (+,-), %
Alcoholic beverages	000s litres	6,317.6	5,878.0	+7.5

In 2011 alcoholic beverages production increased by 7.5 p.p.

Obeliai spirit distillery, a branch of AB Vilniaus degtinė, makes distilled ethyl alcohol out of rye. Such distilled ethyl alcohol is supplied to AB Vilniaus degtinė and rectified. Alimentary rectified ethyl alcohol is used in the production of alcoholic beverages.

In 2011 works of building a cogeneration power station at Obeliai distillery were still in progress. Since its beginning, the project is funded at the amount of LTL 16,267,941. Half of the project is funded by structural funds of the European Union (hereinafter – the EU). The project is expected to be accomplished at the Q2, 2012. Installed electric power would reach 1.6 MW, thermal power 1.7 MW. Total project estimate is LTL 19,981,500 (exclusive of taxes), the amount of funding received from EU structural funds amounts to LTL 9,990,750. Biogas will be produced out of grain waste in the cogeneration power station and the Company will be able to provide itself with thermal and electric energy, and would be able to sell excess energy to electric distribution networks. This project will enable reducing consumption of energy resources and modernise the use of waste of the distillery, which will enable to decrease environment pollution.

## Annual Statement

### 4 Production Activities (cont'd)

The Company's management pays much attention to cutting production costs, increasing the efficiency of production processes, improving the quality of the production, safe and intensive work.

The quality management system ISO 9001:2000 the Company has implemented is being managed successfully. The implementation of ISO standard ensures the efficiency of management, harmonious development of the Company, competitive advantage.

In 2011 the Company is implementing advanced production management system LEAN - effective process management. The aim of LEAN system - create greater value to the client and increase the competitive advantage by using fewer resources. This system covers three stages: assessment of activities, training and coaching, and implementation and coordination.

### 5 Commercial activities

Selling income of AB Vilniaus degtinė in 2011 amounted to LTL 41,062,173 (in 2010 – LTL 41,829,018). Compared to the same period last year, income decreased by 1.8 p.p.

Most part of the Company's sales are sales in the Lithuanian market (86.1%). Sales in the domestic market decreased by 7.1 p.p., meanwhile sales to foreign markets increased by 50.7 p.p. The sales were growing fastest in Latvia, Poland, Denmark and Bulgaria.

Production sold

Name	Measurement unit	2011 January - December	2010 January - December	Change (+,-), %
Alcoholic beverages	000s litres	6,863.5	6,267.6	+9.5

In 2011 595.9 thousand litres more were sold comparing with 2010. Sales increased by 9.5 p.p. The greatest comparative weight was by vodkas, i.e. 72.2 percent of alcohol sale in litres. The sales of vodka during the year decreased by 1.1 p.p., although the demand of vodka in the market decreased by as much as 8.0 p.p.

The specialists from marketing and sales departments are creating brand image and sale strategies for the new brands, and are consistently working in the marketing formation field. The funds for advertising and promotion of sales are quite limited because advertising of alcohol in Lithuania is limited by two Laws - Republic of Lithuania Law on Advertising and Law on Alcohol Control.

Increased prices of raw materials, materials and energy resources, as well as demand for cheap imported alcoholic drinks affected the drop down in the Company's profitability related to the alcoholic beverages it sells.

The Company purchases raw materials and materials necessary for the production from Lithuanian and foreign suppliers at favourable prices. Unfortunately, lately the prices of raw materials, materials and energy resources is increasing. The quality of purchased raw materials and materials is under control, negotiations with the suppliers on more favourable terms of delaying payment are carried out, the reliability of the suppliers is being checked.

## Annual Statement

### 6 Economic-Financial Ratios

Detailed information on the results of the Company's activities for 2011 is presented in audited annual financial statements of AB Vilniaus degtinė for the year ended on the 31st of December 2011. Financial statements were developed in accordance with International Financial Accounting Standards adopted for application in the European Union.

#### Economic-financial indices

Indices	2011 January - December	2010 January - December	Change (+,-), %
Sales revenue (loss), excl. excise tax, thous. LTL	41,062,173	41,829,018	-1.8
Gross profit (loss), thous. LTL	14,347,710	16,182,297	-11.3
Result from operations (EBIT), thous. LTL	(2,743,000)	118,944	-2,406.1
EBITDA, thous. LTL	3,362,224	4,020,672	-16.4
Profit (loss) before taxes, thous. LTL	(3,194,124)	(401,769)	+695.0
Profit (loss) of the period, thous. LTL	(2,840,717)	(335,921)	+745.7
Depreciation, amortisation and impairment, thous. LTL	6,105,224	3,901,728	+56.5
Non-current assets, thous. LTL	47,958,527	44,594,105	+7.5
Current assets, thous. LTL	35,585,485	32,100,395	+10.9
Total assets, thous. LTL	83,544,012	76,694,500	+8.9
Share capital, thous. LTL	24,408,431	24,408,431	-
Owner's equity, thous. LTL	36,119,630	38,960,347	-7.3
Non-current liabilities, thous. LTL	14,691,867	10,454,295	+40.5
Current liabilities, thous. LTL	32,732,515	27,279,858	+20.0
Net cash flows from operating activities, thous. LTL	4,907,830	7,892,797	-37.8
Net cash flows from investing activities, thous. LTL	(9,080,171)	(9,038,289)	+0.5
Net cash flows from financing activities, thous. LTL	4,169,413	1,112,922	+274.6
Gross profit margin ratio, %	34.9	38.7	-9.8
Operating profit margin ratio, %	(6.9)	(0.8)	+762.5
EBIT profit margin ratio, %	(6.7)	0.3	-2,333.3
EBITDA profit margin ratio, %	8.2	9.6	-14.6
ROE (return on equity), LTL	(0.08)	(0.01)	+700.0
ROA (return on assets), LTL	(0.03)	0.00	-
Quick ratio	0.801	0.903	-11.3
Net working capital turnover ratio, ratio	10.702	5.045	+112.1
Profit per share, LTL	(0.12)	(0.01)	+1,100.0
Debt to equity ratio	1.313	0.969	+35.5

In 2011 the Company incurred losses of LTL 2,840,717 (in 2010 it incurred losses of LTL 335,921). The amount of losses and profitability indices were adversely affected by losses incurred by asset value reduction by LTL 2,371,448, which were confirmed in December 2011 after the evaluation of the building and land at the market prices was carried out.

## **Annual Statement**

### **6 Economic-Financial Ratios (cont'd)**

In 2011 LTL 10,355,897 were dedicated for investments, LTL 10,266,048 were dedicated for building cogeneration power plant.

The value of the Company's assets increased by 8.9 p.p. over the year. The asset value increased after acquiring relevant equipment and machinery for the cogeneration power plant, and after the increase of production demand in December the buyers' debts increased by 6.3 p.p., and after the scope of production increased, the stock of raw materials and materials (mainly grain and ethyl alcohol) increased by 33.7 p.p.

Most part of amounts payable and liabilities for the year ended consisted of the Governmental grant of LTL 8,175,209 dedicated for building the cogeneration power plant, bank credits for the project and current assets, and leasing obligations of LTL 19,655,168, excise and VAT taxes payable of LTL 11,478,697. After the increase of the production scope, the debts for the suppliers for materials and raw materials increased by 49.0 p.p.

Increased current liabilities (debts for the suppliers, excise and VAT taxes payable, financial liabilities to the bank) reduced the quick ratio by 11.3 p.p.

The increase of debt to equity ratio (from 0.969 to 1.313) was influenced by losses incurred by property evaluation and increased financial liabilities to the bank for the project of building cogeneration power plant, which was funded by it.

Increased net working capital turnover ratio (from 5.045 to 10.702) shows the sufficiency of working capital.

### **7 Risk Factors**

#### **Economic Risk Factors**

Key risk factors are: unstable economic situation, large concentration within domestic alcohol market, competition, the extent of sales of alcohol in the shadow economy, the probability of increase of the excise and VAT taxes, increasing restrictions of alcohol advertising and trade. As the competition is getting more intense, much attention and many funds are allotted to production of new products and development of brand images, strengthening of selling positions in the domestic market and development of sales in foreign markets.

The Company did not find it difficult to procure itself with raw materials and materials for production. The supply agreements which were signed ensure supply of materials, raw materials and energy resources. Production selling agreements with buyers are entered into for a period of one year. The intended terms for delay of payments allow to plan and balance the cash flows.

#### **Financial Risk Factors**

To secure repayment of bank loans, the Company has pledged a part of its assets. Information on pledged assets and financial risk is presented in Note 29 and Note 27 to the audited annual financial statements for the year ended on the 31st of December 2011. The Company controls and fulfils the bank's requirements on index sizes as well as the additional requirements.

## Annual Statement

### 7 Risk Factors (cont'd)

#### Ecologic Risk Factors

There were no fines for environment pollution or limitation or suspension of activities due to damage to the environment. There were no other ecologic risk factors or accidents. Every year the Company executes an agreement on management of package waste. In 2011 the incurred expenses for waste management amounted to LTL 834,552. Such expenses may increase considering production extents and tasks of package waste use and processing.

#### Technical –Technological Risk Factors

Since a part of the Company's technologic machinery is depreciated, particular attention is paid to renewal of 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 constantly keep on improving their qualification at different courses, workshops, and study at higher schools. In the labour market there is lack of qualified employees and skilled specialists which would match the Company's requirements. At the moment there are no vacancies in the Company. The Company pays salaries and wages in timely manner.

Information on other risk factors is presented in Note 27 to the audited annual financial statements for the year ended on the 31st of December 2011.

### 8 Employees

#### Average number of employees

Indices	2011 January - December	2010 January - December
Number of employees	149	179

Average number of employees decreased by 16.8 p.p. after achieving higher efficiency of manufacturing processes and administrative employees' performance.

#### Average monthly salary of employees

Employees	2011 January - December		2010 January - December	
	Number as on 31-12-2011	Average monthly salary (in LTL)	Number as on 31-12-2010	Average monthly salary (in LTL)
Managers (directors)	3	12,032	5	9,111
Specialists and white-collar workers	57	3,135	54	3,262
Blue-collar workers	90	1,535	110	1,777
Total	150	2,328	169	2,390

## Annual Statement

### 8 Employees (cont'd)

Employee distribution by education

Employees	Number as on 31-12-2011	Number as on 31-12-2010
With higher education	47	50
With post-secondary education	40	38
With higher secondary or vocational secondary education	63	80
With unfinished secondary education	0	1
Total	150	169

Financial remuneration of management and other related persons

Indices	2011 January-December	2010 January-December
Amounts linked to labour relations (to social insurance and guarantee fund payments), LTL thous.:		
- Management (directors)	667.3	558.2
- Other related persons	-	-
2. Gratuitously transferred assets and gifts, LTL thous.:		
- Management	-	-
- Other related persons	-	-
3. Other amounts payable (excl. VAT), LTL thous.:		
- Management	-	-
- Other related persons (members of collegial bodies)	309.6	309.6
Average number of managers	4	5

Amounts accrued to managers (directors) contain severance pays and compensations for unused annual holidays and amount to LTL 163.3 thous. with social insurance and guarantee fund payments incl. The Company has not granted any loans or guarantees to the managers (directors) or members of collegial bodies. There were no other significant transactions, significant receivable or payable amounts.

In 2011 the Director General was re-elected twice. After the Deputy Director General and the Director of Finance and Administration have resigned, the positions remained vacant.

The Company values its employees and takes care of them:

- pays salaries and wages in timely manner;
- encourages the development of employees.

Employees of the Company constantly keep on improving their qualification at different courses, workshops, and study at higher schools. At the moment some of the Company's employees continue their education in higher education institutions. These employees are studying Nanochemistry and Molecular Biology and Biotechnology.

The Company is taking part in the GPD project "Training of top and medium level managers of industry leaders for the purpose of increasing cooperation among companies having the largest economic potential and their competitiveness in the international context", as well as in the project on improving the employees' qualification by deepening their knowledge of foreign languages.

## **Annual Statement**

### **8 Employees (cont'd)**

Aiming to create greater value to the client and increase the competitive advantage from the 9<sup>th</sup> of May 2011 the Company has started implementing LEAN production management system. The employees are being certified for education and development programs they have completed, and are rewarded for suggestions and ideas which bring economic benefit to the Company.

In employment contracts or collective agreement there are no special rights or obligations intended for the employees of the Company or a part of them.

### **9 Research and Development Activities**

Development of new products (beverages and recipes) is a continuous part of the Company's activities. The Company regularly carries out experimental development projects involving experimental tests based on internal studies and experience of its employees. It keeps on further developing the production of flavoured vodkas and bitters. Most attention is paid to the development of traditional vodka and improvement of its taste. The products of the Company, which hold deep Lithuanian traditions of production, have received numerous awards for exceptional quality and recipes. Significant achievements in development of new products are rewarded with medals gained at different fairs and exhibitions.

### **10 Environment Protection**

The Company carries out its production activities in accordance with the Integrated Pollution Prevention and Control Permit. The Company tries to reduce negative impact on the environment, implements pollution prevention means, which assure that performed activities have no negative impact on the air, water, and soil. The Company always monitors its activity indices, plans and implements investments to enable reducing production and operating costs, energy consumption, and improving the environmental condition.

Key sources of pollution at the Company's branch Obeliai distillery are boiler-room and ethyl alcohol production shop. The boiler-room produces steam needed for the technological process, provides thermal power to production and domestic facilities. The boiler is operated 24 hours a day. 760 tons of liquid fuel (boiler oil) are burned in the boiler-room annually. Waste and sewage that is formed during the production process are collected and purified in the Company's own purification facilities. To improve the control over the work of sewage purification facilities, Panevėžys REPD regularly carries out control tests. The program of monitoring underground waters of the water body is carried out.

Natural gas is used in the technological process of production facilities in Vilnius. 767 thousand m<sup>3</sup> of natural gas is consumed annually. Production, domestic and surface sewage gets into sewerage networks of UAB Vilniaus vandenys. Waste of all kinds that is formed in the Company (glass, metal, paper and cardboard packages, plastic packages, etc.) are sorted and delivered to waste handling companies (over the year, 147 tones of waste has formed).

Hazard and risk analysis has been carried out, accident prevention means and accident liquidation plan have been prepared. The Company's buildings have been assessed and marked in accordance with the general fire-prevention rules.

## **Annual Statement**

### **10 Environment Protection (cont'd)**

The company declares the amount of natural water resources used and pollutants emitted from mobile and static sources of pollution. In 2011 the tax amounting to LTL 15.6 thousand was imposed for pollution of environment from mobile and static sources of pollution and LTL 1.9 thousand for usage of the natural resources of the state (water).

### **11 Internal control and quality system**

The purpose of the Company's control system is ensuring the implementation of the Company's aims and objectives in a way that the Company could reach long-term profitability and would create reliable financial and management accountability system.

The internal control of the Company is a dynamic process the purpose of which is to guarantee that the Laws, Legal instruments and rules accepted by the Company are followed, proper methods of protecting the Company's property are implemented, mistakes are avoided and any abuse is revealed. The process has three stages:

- setting standards and norms;
- comparison of factual and estimated data;
- making decisions after having analysed the data.

The organisational structure clearly defines the functions of the employees and their accountability for the quality of work. The current accounting management system ensures right accounting of the data and the control. Systemic and instantaneous inventory performed at the Company ensures protection of assets from unauthorised use or embezzlement. The management ensures that the employees of financial division have appropriate expertise, experience and most recent knowledge relevant for preparation of reliable financial accounts.

The management always aims that the internal control system would accelerate the management processes and would help manage the business risk.

The Company has implemented the quality management system ISO 9001:2000. After the implementation of ISO 9001:2000 standard, the Company is a solid and reliable partner in the foreign markets. The Company is oriented to the long-term goals and quality. The clients are trusting the products and quality of work more. The employees clearly understand the aims and tasks that are assigned to them, and their set positions.

In 2011 the Company is implementing advanced production management system LEAN - effective process management. The aim of LEAN system - create greater value to the client and increase the competitive advantage by using fewer resources. The aim is to eliminate the present losses, ensure timely execution of orders, better usage of current assets, involve the employees into constant process of improvement and efficiency increase.

### **12 Business Plans and Forecasts**

In 2011 Lithuanian vodka market shrank by 8 p.p. The main reasons for that were dull recovery of domestic consumption, reducing population size, shadow economy and consumption trends which favour less strong alcohol (wine, beer, alcohol-containing cocktails). The market is expected to get more steady in 2012 and



## **Annual Statement**

### **12 Business Plans and Forecasts (cont'd)**

it is expected that the size of Lithuanian vodka market will remain at 2011 level. The estimations cannot be more optimistic because of slow-down of the growth of country's economy.

Despite the negative trends, in 2011 the Company sold 6,863.5 thousand litres of alcoholic beverages, which is by 9.5 p.p. more than in 2010. The turnover in 2011 amounted to LTL 41.1 million, which is by 1.8 p.p. less than in 2010. The main reason for the reduction in turnover is reduction of average sale price. Reasons:

- increasing competition in Lithuanian market which influenced reduction of average sale price;
- the import of cheap Belorussian, Ukrainian vodka and improving positions of such vodka in Lithuanian market;
- the growth of private label segment in Lithuanian market and in the assortment of the Company's production.

It is estimated that in 2012 the amount of sales of Company's production in litres will be 7,549.8 thousand litres, i.e. by 10.0 p.p. more than in 2011. The estimated turnover is LTL 52.6 mln., i.e. by 28.0 p.p. more than in 2011.

Assumptions of growth:

- development of foreign markets - one of the Company's priorities aiming to diversify the sales portfolio, which currently is highly dependent on Lithuanian. In 2011 the sales (in litres) to foreign markets increased by 95.6 p.p. and amounted to 648.4 thousand litres of alcoholic beverages. The estimated growth for 2012 is by 85.1 p.p., which would amount 1,200 thousand litres per year;
- production and sale of electricity - in Q2 2012 it is planned to finish the establishment of the project "Using distillery refuse (broga) for the production of electric power" in branch Obeliai spirit distillery. In 2012 it is planned to produce 6 mln. kWh;
- investments in brand images and creation of new brands.
- development of import portfolio - in 2012 planned sales of imported alcoholic beverages amount to 821.5 thousand litres which would make up the turnover of LTL 4.7 mln.

Main aims for 2012:

- implementation of LEAN production management system;
- development of Bajorų, Sobieski, Čepkelių, Renaissance brands and increasing their familiarity and competitiveness;
- completion of project "Using distillery refuse (broga) for the production of electric power" in branch Obeliai spirit distillery;
- formation of assortment for foreign markets and creation of new brands;
- strengthening the distribution channels in the markets of Latvia, Estonia, Poland, Bulgaria, Slovakia, Czech, Israel, Bulgaria, Belarus and Russia.

It is planned that the actions and investments in increasing effectiveness and optimizing the processes will allow the Company to reach better activity indices in 2012.

**AB VILNIAUS DEGTINĖ**

*Annual Statement for the year ended on  
the 31<sup>st</sup> December 2011*

**CONFIRMED**

*by General Shareholder Meeting on 19 April, 2012*

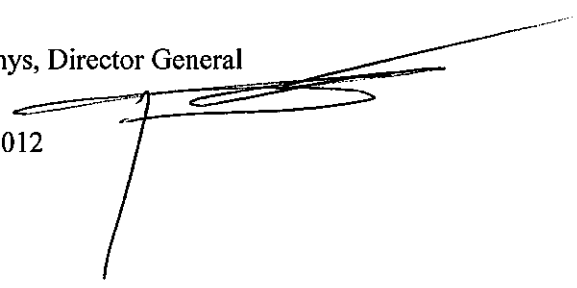
## **Annual Statement**

### **13 Events after the Reporting Period**

After the reporting period there were no events which influence the financial results of the Company.

Juozas Daunys, Director General

Vilnius,  
15 March, 2012



## Annex to Annual Statement

Report of AB Vilniaus Degtinė on the compliance with the Corporate Governance Code for the Companies Listed in stock exchange „NASDAQ OMX Vilnius“ in 2011.

Following part 3 of article 21 of the Law on Securities of the Republic of Lithuania and paragraph 24.5 of the Listing Rules of stock company „NASDAQ OMX Vilnius“, stock company Vilniaus Degtinė reveals in this report on how it complies to the Corporate Code of Governance approved by stock company „NASDAQ OMX Vilnius“ for the companies whose stock is traded in the regulated market, and specific provisions thereof. If the present Code or some of its provisions are not followed, it is specified which exact provisions are not followed and what are the reasons for that.

PRINCIPLES/ RECOMMENDATIONS	YES /NO /IRRELEVANT	COMMENT
<b>Principle I: Basic provisions</b> <b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimising over time shareholder value.</b>		
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 governance 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 head 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.

<b>Principle II: The corporate governance framework</b>		
<b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b>		
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 setup 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 governance. 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.	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 depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	<p>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).</p> <p>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.</p>

<b>Principle III: The procedure of the formation of a collegial body to be elected by a general shareholder meeting</b>		
<b>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.</b>		
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. The members of collegial bodies are not remunerated from the funds of the Company.
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.

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<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"><li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholder meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li><li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li><li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li><li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</li><li>5) He/she does not have and did not have any material business relations with the company 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;</li><li>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;</li><li>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;</li><li>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</li><li>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.</li></ol>	No	<p>The company does not follow this recommendation of the Governance Code because the members of the supervisory board are employees of the controlling shareholder or associated companies.</p>
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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. (not including the information provided in Clause 3 Company Management)
<b>Principle IV; The duties and liabilities of a collegial body elected by the general shareholder meeting</b>		
<b>The corporate governance 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.</b>		
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.

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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. 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 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.	Yes	The management bodies of the company 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. Company 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 follow this recommendation because, considering the size and structure of the company, no appointment, salary committees are formed in the company. The audit functions are performed by Company's supervisory board.



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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. 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. The collegial body remains fully responsible for the decisions taken in its field of competence.	Irrelevant	The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary committees are formed in the company. The audit functions are performed by Company's supervisory board.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies have a small number of members of the collegial body, they could exceptionally be composed of the collegial body. Independent members of the collegial body should make the majority of members of each committee. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors.	No	The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary committees are formed in the company. The audit functions are performed by Company's supervisory board.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary committees are formed in the company. The audit functions are performed by Company's supervisory board.
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 follow this recommendation because, considering the size and structure of the company, no appointment, salary committees are formed in the company. The audit functions are performed by Company's supervisory board.
4.12. Nomination Committee.  4.12.1. Key functions of the Nomination Committee should be the following:  1) 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.	No	The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary committees are formed in the company. The audit functions are performed by Company's supervisory board.

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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 Nomination committee.		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the Remuneration Committee should be the following:</p> <ol style="list-style-type: none"><li>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;</li><li>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;</li><li>3) 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company.</li><li>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation.</li><li>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</li><li>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</li><li>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</li></ol> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"><li>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;</li><li>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li><li>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase</li></ol>	No	The company does not follow this recommendation because, considering the size and structure of the company, no appointment, salary committees are formed in the company. The audit functions are performed by Company's supervisory board.

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<p>shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the Audit Committee should be the following:</p> <ol style="list-style-type: none"><li>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);</li><li>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;</li><li>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;</li><li>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;</li><li>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;</li><li>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</li></ol> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the 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.</p>	Yes	The functions of audit committee are performed by the Company's supervisory board.

<p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	The company does not have an established practice of evaluating and informing about the activities of the management bodies.
<p><b>Principle V: The working procedure of the company's collegial bodies</b></p>		
<p><b>1.3.1. The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b></p>		
<p>5.1. The Company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	Yes	Collegial supervisory and management bodies of the Company are managed by the chairmen of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings.
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues.</p>	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.

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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.		
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-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	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.
<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>		
<b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b>		
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	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.

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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.		
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.
<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b>		
<b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b>		
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.		
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.		
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.

<b>Principle VIII: Company's remuneration policy</b>		
<b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b>		
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.
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none"> <li>1) Explanation of relative importance of variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</li> <li>5) Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>6) Sufficient information on the linkage between the remuneration and performance;</li> <li>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>8) Sufficient information on the policy regarding termination payments;</li> <li>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</li> <li>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>13) Remuneration statement should not include commercially sensitive information.</li> </ol>	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.

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<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	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.
<p>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.</p> <p>8.5.1. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"><li>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;</li><li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li><li>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;</li><li>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;</li><li>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;</li><li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li></ol> <p>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:</p> <ol style="list-style-type: none"><li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li><li>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;</li><li>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;</li><li>4) All changes in the terms and conditions of existing share options occurring during the financial year.</li></ol> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"><li>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li></ol>		



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<p>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.</p> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p> <p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p> <p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p> <p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	No	<p>The company does not make the salary policy publicly available because it is a confidential internal document of the company.</p> <p>The Company does not exercise the policy of using shares as a method of remuneration.</p>
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p> <p>8.11. Termination payments should not be paid if the termination is due to inadequate performance.</p> <p>8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p> <p>8.13. In case the remuneration is based on awarding shares, the shares should not vest for at least three years after their award.</p> <p>8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.</p> <p>8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).</p> <p>8.16. Remuneration of non-executive or supervisory directors should not include share options.</p>		

<p>8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.</p> <p>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 policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p> <p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of schemes should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p> <p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"><li>1) Grant of share-based schemes, including share options, to directors;</li><li>2) Determination of maximum number of shares and main conditions of share granting;</li><li>3) The term within which options can be exercised;</li><li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li><li>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.</li></ol> <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p> <p>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 shareholders' approval.</p> <p>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.</p> <p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, 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</p>		
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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.		
<b>Principle IX: The role of stakeholders in corporate governance</b>		
<b>1.7.1 The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept stakeholders includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</b>		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	Corporate governance system of the company ensures that all legally protected rights of the stakeholders are respected.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
<b>Principle X: Information disclosure</b>		
<b>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</b>		
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;  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) Governance 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.	Yes	Information on the financial results, economic activities and company governance 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.
10.2. It is recommended to the company, which is the parent of other companies, 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.	No	
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	No	