



## **AB VILNIAUS DEGTINĖ**

Interim Financial Statements  
for the nine-month period ended on the  
30<sup>th</sup> September 2014  
(unaudited)

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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, Vilnius, Lithuania

### **Management**

Juozas Daunys, Director General  
Dalius Rutkauskas, Buying and Selling Director  
Genadij Jurgelevič, Production Director

### **Board**

Darius Žaromskis  
Juozas Daunys  
Dalius Rutkauskas  
Genadij Jurgelevič

### **Auditor**

UAB Grant Thornton Rimess

### **Banks**

AB DNB bankas  
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 Bank of Lithuania, we, the Director General Juozas Daunys and Chief Financial Officer Renata Baliūnaitė of AB Vilniaus degtinė, confirm that as we know, the unaudited Interim Financial Statements of AB Vilniaus degtinė for the nine-month period ended on the 30<sup>th</sup> September, 2014, 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, profit or loss, cash flows of AB Vilniaus degtinė.

Director General  
Juozas Daunys

Vilnius,  
26 November, 2014



Chief Financial Officer  
Renata Baliūnaitė





## Statement on Financial Position

In LTL	Notes	30.09.2014	31.12.2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	14	28 230 063	30 307 703
Intangible assets	13	9 552 218	10 214 544
Financial assets	15	6 353 944	7 285 469
<b>Total non-current assets</b>		<b>44 136 225</b>	<b>47 807 716</b>
<b>Current assets</b>			
Inventories	16	10 128 280	6 823 312
Prepayments and future expenses	17	512 603	390 281
Trade receivables	18	25 382 438	29 584 770
Other receivables	12,19	1 218 574	507 911
Cash and cash equivalents	20	879	961
<b>Total current assets</b>		<b>37 242 774</b>	<b>37 307 235</b>
<b>TOTAL ASSETS</b>		<b>81 378 999</b>	<b>85 114 951</b>

Notes on pages 11-35 are an integral part of these financial statements.

Director General  
Juozas Daunys

Chief Financial Officer  
Renata Baliūnaitė

Vilnius,  
26 November, 2014

**Statement on Financial Position (cont'd)**

In LTL	Notes	30.09.2014	31.12.2013
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	21	24 408 431	24 408 431
Legal reserve	21	2 440 843	2 440 843
Retained earnings (loss)		12 024 948	9 520 263
<b>Total equity</b>		<b>38 874 222</b>	<b>36 369 537</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings			
	23	882 214	2 809 827
Governmental grants	24	8 255 926	8 856 446
Trade payables		43 773	89 631
Deferred tax liability	11	1 061 745	803 773
<b>Total non-current liabilities</b>		<b>10 243 658</b>	<b>12 559 677</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings			
	23	14 658 449	18 987 561
Trade payables		7 267 051	8 973 351
Other payables	25	10 335 619	8 224 825
<b>Total current liabilities</b>		<b>32 261 119</b>	<b>36 185 737</b>
<b>Total liabilities</b>		<b>42 504 777</b>	<b>48 745 414</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>81 378 999</b>	<b>85 114 951</b>

Notes on pages 11-35 are an integral part of these financial statements.

Director General  
Juozas Daunys

Vilnius,  
26 November, 2014

Chief Financial Officer  
Renata Baliūnaitė

## Comprehensive Income Statement

In LTL	Notes	Jan-Sep 2014	Jan-Sep 2013
<b>Sales revenue</b>	4	<b>45 358 573</b>	<b>37 639 856</b>
Cost of sales		(30 620 441)	(25 834 383)
<b>Gross profit</b>	4	<b>14 738 132</b>	<b>11 805 473</b>
Other income	5	1 425 927	537 687
Sales and distribution expenses	6	(5 247 160)	(3 880 029)
Administrative expenses	7	(7 928 791)	(7 262 473)
Other expenses	5	(32 040)	(20 130)
<b>Result from operating activities</b>		<b>2 956 068</b>	<b>1 180 528</b>
Financial income	9	307 266	201 157
Financial expenses	9	(425 406)	(552 603)
<b>Profit (loss) before tax</b>		<b>2 837 928</b>	<b>829 082</b>
Corporate income tax	10	(333 243)	(179 231)
<b>Profit (loss) for the period</b>		<b>2 504 685</b>	<b>649 851</b>
Basic and diluted earnings (loss) per share	22	0.10	0.03
<b>Other general income (expenditure)</b>		0	0
<b>Total general income (expenditure), less taxes</b>		<b>2 504 685</b>	<b>649 851</b>

Notes on pages 11-35 are an integral part of these financial statements.

Director General  
Juozas Daunys

Vilnius,  
26 November, 2014

Chief Financial Officer  
Renata Baliūnaitė

## Comprehensive Income Statement

In LTL	Notes	Jul-Sep 2014	Jul-Sep 2013
<b>Sales revenue</b>	4	<b>16 195 054</b>	<b>12 257 594</b>
Cost of sales		(11 082 716)	(8 004 393)
<b>Gross profit</b>	4	<b>5 112 338</b>	<b>4 253 201</b>
Other income	5	1 232 569	204 637
Sales and distribution expenses	6	(1 721 838)	(1 210 872)
Administrative expenses	7	(2 650 622)	(2 377 698)
Other expenses	5	(7 813)	(90 760)
<b>Result from operating activities</b>		<b>1 964 634</b>	<b>778 508</b>
Financial income	9	171 597	67 789
Financial expenses	9	(129 448)	(161 735)
<b>Profit (loss) before tax</b>		<b>2 006 783</b>	<b>684 562</b>
Corporate income tax	10	(186 992)	(119 036)
<b>Profit (loss) for the period</b>		<b>1 819 791</b>	<b>565 526</b>
Basic and diluted earnings (loss) per share	22	0.07	0.02
<b>Other general income (expenditure)</b>		<b>0</b>	<b>0</b>
<b>Total general income (expenditure), less taxes</b>		<b>1 819 791</b>	<b>565 526</b>

Notes on pages 11-35 are an integral part of these financial statements.

Director General  
Juozas Daunys

Vilnius,  
26 November, 2014

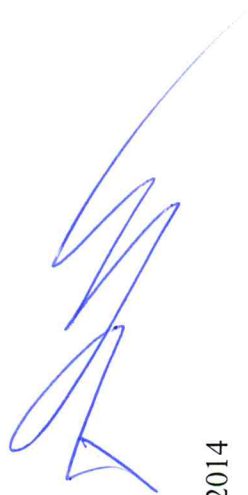
Chief Financial Officer  
Renata Baliūnaite

## Statement of Changes in Equity

In LTL	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total shareholders' equity
<b>Capital and reserves as on 1 January 2013</b>		<b>24 408 431</b>	<b>2 440 843</b>	<b>0</b>	<b>9 473 464</b>	<b>36 322 738</b>
Profit (loss) for the period					649 851	649 851
<b>Capital and reserves as on 30 September 2013</b>		<b>24 408 431</b>	<b>2 440 843</b>	<b>0</b>	<b>10 123 315</b>	<b>36 972 589</b>
<b>Capital and reserves as on 1 January 2014</b>		<b>24 408 431</b>	<b>2 440 843</b>	<b>0</b>	<b>9 520 263</b>	<b>36 369 537</b>
Profit (loss) for the period					2 504 685	2 504 685
<b>Capital and reserves as on 30 September 2014</b>	21	<b>24 408 431</b>	<b>2 440 843</b>	<b>0</b>	<b>12 024 948</b>	<b>38 874 222</b>

Notes on pages 11-35 are an integral part of these financial statements.

Director General  
Juozas Daunys



Vilnius,  
26 November, 2014

Chief Financial Officer  
Renata Baliūnaitė



## Cash Flows Statement

In LTL	Jan-Sep 2014	Jan-Sep 2013
Profit (loss) for the period	2 504 685	649 851
Depreciation and amortisation	2 551 845	2 703 016
Impairment of trade receivables and other receivables	(8 243)	(2 750)
Net financial expenses	186 974	217 725
Gain (loss) on disposal of non-current assets	4 877	13
Corporate income tax expenses	333 243	179 231
Net cash flows from ordinary activities before changes in working capital	5 573 381	3 747 086
Change in inventories	(3 304 968)	2 002 003
Change in prepayments	(122 322)	65 433
Change in trade receivables and other receivables	4 700 030	2 765 432
Change in trade payables and other payables	308 390	(6 518 283)
Net cash flows from operating activities	1 581 130	(1 685 415)
Income tax paid	0	0
<b>Net cash flows from operating activities</b>	<b>7 154 511</b>	<b>2 061 671</b>
Interest	505 036	8 217
Proceeds from disposal of non-current assets	124	0
Acquisition of property, plant and equipment	(278 575)	(88 008)
Acquisition of intangible non-current assets	(58 555)	(17 686)
Acquisition of investments	0	(5 743)
Loans	(570 000)	0
<b>Net cash flows from investing activities</b>	<b>(401 970)</b>	<b>(103 220)</b>
Repayment of loans	(1 895 537)	(1 895 537)
Loans received	0	0
Increase (decrease) of other financial debt	(4 295 817)	779 004
Financial lease payments	(166 552)	(432 535)
Interest paid	(394 717)	(418 882)
<b>Net cash flows from financing activities</b>	<b>(6 752 623)</b>	<b>(1 967 950)</b>
<b>Net cash flows from operating, investing and financing activities</b>	<b>(82)</b>	<b>(9 499)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>961</b>	<b>10 140</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>879</b>	<b>641</b>

Notes on pages 11-35 are an integral part of these financial statements.

Director General  
Juozas Daunys

Vilnius,  
26 November, 2014

Chief Financial Officer  
Renata Baliūnaitė



## 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. Fifty per cent of the ordinary nominal shares of UAB (Private Limited Company) Dunkeris LT, which was established in 2013, are owned by the Company. UAB Dunkeris has only just begun to develop its operations in Lithuania.

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

**As on the 30<sup>th</sup> of September 2014, its shares are held by the following shareholders**

Shareholder	Number of shares	Nominal value in LTL	Total value in LTL
Sobieski Dystrubucja Sp.zo.o.	16 668 632	1	16 668 632
Darius Žaromskis	3 602 498	1	3 602 498
SEB SA OMNIBUS (funds/inst clients)	2 233 476	1	2 233 476
Daiva Žaromskienė	1 220 422	1	1 220 422
Other shareholders	683 403	1	683 403
<b>Total capital</b>	<b>24 408 431</b>	<b>1</b>	<b>24 408 431</b>

The number of shareholders total 253

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. Here produced electric and thermal energy. Part of electric energy is sold.

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

The Company employed 156 staff members as on the 30<sup>th</sup> of September 2014 (141 staff members as on the 30<sup>th</sup> of September 2013).

### 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 EU. Interim Financial Statements are unaudited.

#### 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 EU 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.

## **Notes**

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

#### **Basis of preparation (cont'd)**

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 EU that have significant effect on the financial statements, and estimates of significant adjustments in the next year are discussed in separate Note.

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.

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.



## Notes

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

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

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 30<sup>th</sup> of September 2014.

#### Non-current tangible assets

##### 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.

##### 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.

## Notes

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

#### Non-current intangible assets

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

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

- Software and licences 3 years
- Sobieski trademark 20 years

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

#### Leased assets

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

## **Notes**

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

#### **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. Grants amortization is later reducing asset depreciation costs within the respective useful service life of the assets.

#### **Impairment**

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

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

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

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

#### **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.



## **Notes**

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

#### **Reversals of impairment (cont'd)**

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 benefits**

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. In 2014 the Company began to pay contributions to the pension fund for the Company's management (directors).

#### **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.

##### **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.

## **Notes**

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

#### **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.

##### **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.



## **Notes**

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

#### **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.

### **3 Critical accounting estimates and judgements**

Estimates and assumptions are continually reviewed and are based on historical experience and other factors, representing current situation and reasonable expected future events. Management of the Company, considering forecasts and budget, borrowing need, fulfilment of obligations, products and markets, financial risk management, having performed operation continuity assessment, considers that there are no obscurities in the assessment of continuity of the Company's activities or doubts concerning its further operation. The Company makes estimates and assumptions concerning future events. Resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

#### **Impairment losses on receivables**

The Company reviews its receivables to assess impairment at least on a quarterly basis. Impairment losses on receivables are recognized to pay a delay of 1 year. 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.

## Notes

### 3 Critical accounting estimates and judgements (cont'd)

#### 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. By the year 2009 the construction in progress is quarterly tested for impairment and based on management estimates. Depreciation of the construction in progress is calculated since 2009.

#### Impairment losses on building and land

In 2009 the building with land was purchased. In 2011 property valuations have been carried out and 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.

### 4 Segment reporting

Taking into account the share of sales of the products being sold, the segments are excluded – Finished alcoholic beverages, nutritional ethyl alcohol (rectified and distilled) and its products, denatured ethyl alcohol are produced in the Company and goods for resale (alcoholic beverages, non-alcoholic beverages, etc.). Other income as well as the revenues and costs of financial activity are not classified to the segments; profit taxes are controlled. The revenues from electric energy sales are classified to other income.

#### Sales revenue and gross profit for January-September 2014

In LTL	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Sales revenue	37 570 404	4 903 786	875 826	2 008 557	45 358 573
Gross profit	14 264 896	128 773	99 396	245 068	14 738 133

#### Sales revenue and gross profit for January-September 2013

In LTL	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Sales revenue	30 455 368	4 661 202	456 573	2 066 713	37 639 856
Gross profit	11 056 843	486 285	(11 291)	273 636	11 805 473

## Notes

### 4 Segment reporting (cont'd)

#### Sales revenue and gross profit for July-September 2014

In LTL	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Sales revenue	12 480 380	2 673 832	313 673	727 169	16 195 054
Gross profit	4 848 650	140 148	21 568	101 972	5 112 338

#### Sales revenue and gross profit for July-September 2013

In LTL	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Sales revenue	10 845 465	304 780	407 989	699 360	12 257 594
Gross profit	4 115 959	86 188	(35 476)	86 530	4 253 201

The Company's primary activities are carried out in the Lithuanian market, in the EU countries and other foreign markets. In January-September 2014, sales to EU and other foreign markets amounted to LTL 8 382 323 (in January-September 2013 – LTL 7 360 402), in July-September 2014, sales to EU and other foreign markets amounted to LTL 3 058 926 (in July-September 2013 – LTL 1 319 492). Considering the share of product sales in foreign markets in total revenue, no geographical segments are singled out.

In LTL	Jan-Sep 2014	Jan-Sep 2013
<b>5 Income and expenses of other activities</b>		
Lease of premises and utilities	94 667	83 048
Income from sales of intangible asstes	123	0
Income from sales of materials and spare parts	150 756	100 840
Electricity sales profit	0	221 347
Transportation	38 291	74 969
Indemnification	1 103 648	0
Other income	38 442	57 483
Total other income	1 425 927	537 687
Other expenses	(21 319)	(20 130)
Loss from sales of intangible asstes	0	0
Loss from sales of electricity	(10 721)	0
Loss from sales of materials and spare parts	0	0
Total other expenses	(32 040)	(20 130)
<b>Net income and expenses of other activities</b>	<b>1 393 887</b>	<b>517 557</b>



## Notes

In LTL	Jul-Sep 2014	Jul-Sep 2013
<b>5 Income and expenses of other activities (cont'd)</b>		
Lease of premises and utilities	29 200	28 101
Income from sales of intangible asstes	0	0
Income from sales of materials and spare parts	53 233	0
Electricity sales profit	81 969	140 832
Transportation	7 820	22 145
Indemnification	1 049 823	0
Other income	10 524	13 559
Total other income	1 232 569	204 637
Other expenses	(7 813)	(6 979)
Loss from sales of intangible asstes	0	0
Loss from sales of electricity	0	0
Loss from sales of materials and spare parts	0	(83 781)
Total other expenses	(7 813)	(90 760)
<b>Net income and expenses of other activities</b>	<b>1 224 756</b>	<b>113 877</b>
In LTL	Jan-Sep 2014	Jan-Sep 2013
<b>6 Sales and distribution expenses</b>		
Advertising expenses	(3 182 420)	(2 364 459)
Personnel expenses	(954 708)	(603 091)
Transportation expenses	(477 635)	(469 435)
Market research expenses	(37 366)	(69 837)
Packaging expenses	(121 671)	(57 550)
Other expenses	(473 360)	(315 657)
<b>Total sales and distribution expenses</b>	<b>(5 247 160)</b>	<b>(3 880 029)</b>
In LTL	Jul-Sep 2014	Jul-Sep 2013
<b>Sales and distribution expenses</b>		
Advertising expenses	(1 078 470)	(784 435)
Personnel expenses	(300 435)	(193 341)
Transportation expenses	(190 103)	(111 000)
Market research expenses	0	0
Packaging expenses	(30 221)	(15 686)
Other expenses	(122 609)	(106 410)
<b>Total sales and distribution expenses</b>	<b>(1 721 838)</b>	<b>(1 210 872)</b>

## Notes

In LTL		Jan-Sep 2014	Jan-Sep 2013
<b>7</b>	<b>Administrative expenses</b>		
	Personnel expenses	(2 406 426)	(2 237 132)
	Operating taxes	(1 281 147)	(1 117 916)
	Repairs and maintenance	(345 878)	(205 889)
	Amortisation and depreciation	(1 350 240)	(1 368 223)
	Consulting and training expenses	(490 946)	(300 026)
	Maintenance of cargo vehicles	(372 347)	(411 473)
	Security expenses	(188 475)	(150 474)
	Communications and IT maintenance expenses	(105 352)	(114 311)
	Utilities	(217 698)	(370 701)
	Impairment allowance of debts	8 244	2 750
	Other expenses	(1 178 526)	(989 078)
	<b>Total administrative expenses</b>	<b>(7 928 791)</b>	<b>(7 262 473)</b>
In LTL		Jul-Sep 2014	Jul-Sep 2013
	<b>Administrative expenses</b>		
	Personnel expenses	(789 456)	(695 092)
	Operating taxes	(431 360)	(349 497)
	Repairs and maintenance	(120 425)	(74 100)
	Amortisation and depreciation	(434 263)	(473 951)
	Consulting and training expenses	(169 611)	(160 682)
	Maintenance of cargo vehicles	(142 351)	(125 287)
	Security expenses	(62 175)	(50 700)
	Communications and IT maintenance expenses	(28 857)	(38 209)
	Utilities	(26 872)	(93 712)
	Impairment allowance of debts	(35 794)	(1 593)
	Other expenses	(409 458)	(314 875)
	<b>Total administrative expenses</b>	<b>(2 650 622)</b>	<b>(2 377 698)</b>
In LTL		Jan-Sep 2014	Jan-Sep 2013
<b>8</b>	<b>Personnel expenses</b>		
	Wages and salaries	(3 056 793)	(2 523 660)
	Vacation reserve	(311 461)	(271 393)
	Guarantee fund contributions	(6 779)	(5 622)
	Social security contributions	(1 047 937)	(871 464)
	<b>Total personnel expenses</b>	<b>(4 422 970)</b>	<b>(3 672 139)</b>

## Notes

In LTL	Jul-Sep 2014	Jul-Sep 2013
<b>8 Personnel expenses (cont'd)</b>		
Wages and salaries	(1 019 464)	(806 555)
Vacation reserve	(98 650)	(77 196)
Guarantee fund contributions	(2 371)	(1 839)
Social security contributions	(348 390)	(277 220)
<b>Total personnel expenses</b>	<b>(1 468 875)</b>	<b>(1 162 810)</b>

Redundancy pays in January-September 2014, inclusive of social security contributions and guarantee fund contributions, amounted to LTL 19 458 (in January-September 2013 - LTL 16 781), in July-September 2014 amounted, inclusive of social security contributions and guarantee fund contributions, to LTL 15 377 (in July-September 2013 - LTL 0) .

Personnel expenses for the management (directors) in January-September 2014 amounted to LTL 370 281 (in January-September 2013 - LTL 406 780), of which were amounted to LTL 0 for redundancy pays. Amounted to 12 181 LTL contributions to the pension fund. No loans and (or) indemnities were granted to the management (directors) and no other financial liabilities or non-financial obligations were undertaken. Other significant transactions for details to Note 27.

Average number of staff members on payroll for January-September 2014 was 150 (138 for January-September 2013).

Average number of managers (directors) for January-September 2014 was 3 (3 for January-September 2013).

In LTL	Jan-Sep 2014	Jan-Sep 2013
<b>9 Financial income and expenses</b>		
Interest income	203 200	201 157
Other income	84 313	0
Foreign exchange gain	19 753	0
<b>Total financial income</b>	<b>307 266</b>	<b>201 157</b>
Interest expenses	(390 603)	(418 883)
Other expenses	(34 803)	(7 344)
Foreign exchange loss	0	(126 376)
<b>Total financial expenses</b>	<b>(425 406)</b>	<b>(552 603)</b>
<b>Financial income and expenses, net</b>	<b>(118 140)</b>	<b>(351 446)</b>

## Notes

In LTL	Jul-Sep 2014	Jul-Sep 2013		
<b>9 Financial income and expenses (cont'd)</b>				
Interest income	69 832	67 789		
Other income	84 313	0		
Foreign exchange gain	17 452	0		
Total financial income	171 597	67 789		
Interest expenses	(116 352)	(136 940)		
Other expenses	(13 096)	(17 304)		
Foreign exchange loss	0	(7 491)		
Total financial expenses	(129 448)	(161 735)		
<b>Financial income and expenses, net</b>	<b>42 149</b>	<b>(93 946)</b>		
In LTL	Jan-Sep 2014	Jan-Sep 2013		
<b>10 Corporate income tax expenses</b>				
Current income tax for the period	(75 271)	0		
Change in deferred income tax	(257 972)	(179 231)		
<b>Total corporate income tax expenses</b>	<b>(333 243)</b>	<b>(179 231)</b>		
<b>11 Deferred tax</b>	30.09.2014	31.12.2013		
In LTL	Temporary differences	Deferred tax (15%)	Temporary differences	Deferred tax (15%)
Deferred tax asset	5 260 983	789 147	6 376 458	956 468
Deferred tax liability	(12 339 284)	(1 850 892)	(11 734 938)	(1 760 241)
<b>Net deferred tax liability</b>	<b>(1 061 745)</b>	<b>(803 773)</b>		
In LTL	Jan-Sep 2014	Jan-Sep 2013		
<b>Change in the deferred tax</b>				
Deferred tax liability at the beginning of the period	(803 773)	(724 547)		
Deferred tax expenses	(257 972)	(179 231)		
<b>Deferred tax liability at the end of the period</b>	<b>(1 061 745)</b>	<b>(903 778)</b>		

## Notes

### 12 Corporate income tax

In LTL	Jan-Sep 2014	Jan-Sep 2013
Overpaid corpor. income tax (liability) at the beginning of the period	0	0
Current income tax for the period	(75 271)	0
<b>Overpaid corpor. income tax (liability) at the end of the period</b>	<b>(75 271)</b>	<b>0</b>

### 13 Intangible assets

In LTL	Patents, licences	Software	Other	Total
Cost as of 1 January 2013	45 820	557 240	18 913 672	19 516 732
Additions	0	17 686	0	17 686
Cost as of 30 September 2013	45 820	574 926	18 913 672	19 534 418
Accumulated amortisation as of 1 January 2013	43 695	535 882	7 880 697	8 460 274
Amortisation	1 125	11 431	709 262	721 818
Accumulated amortisation as of 30 September 2013	44 820	547 313	8 589 959	9 182 092
<b>Net book value as of 30 September 2013</b>	<b>1 000</b>	<b>27 613</b>	<b>10 323 713</b>	<b>10 352 326</b>
Cost as of 1 January 2014	45 820	676 938	18 913 672	19 636 430
Additions	0	20 911	37 644	58 555
Write-off	0	0	0	0
Cost as of 30 September 2014	45 820	697 849	18 951 316	19 694 985
Accumulated amortisation as of 1 January 2014	45 195	550 311	8 826 380	9 421 886
Amortisation	625	10 993	709 263	720 881
Write-off	0	0	0	0
Accumulated amortisat. as of 30 September 2014	45 820	561 304	9 535 643	10 142 767
<b>Net book value as of 30 September 2014</b>	<b>0</b>	<b>136 545</b>	<b>9 415 673</b>	<b>9 552 218</b>

All amortisation expenses are included under administrative expenses.



## Notes

### 14 Property, plant and equipment

In LTL	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Constructi on in progress	Other	Total
Cost as of 1 January 2013	36 096 406	24 225 356	1 200 462	2 142 060	1 910 219	0	65 574 503
Additions	0	347 402	199 504	18 606	1 000	24 000	590 512
Write-off and sale of	0	(189 482)	(10 924)	(2 479)	0	0	(202 885)
Reclassificationnns	0	0	0	0	0	0	0
Cost as of the 30 September 2013	36 096 406	24 383 276	1 389 042	2 158 187	1 911 219	24 000	65 962 130
Accumulated impairment of 1 January 2013	2 371 448	0	0	0	477 555	0	2 849 003
Loss of impairment							
Accumulated impairment of 30 September 2013	2 371 448	0	0	0	477 555	0	2 849 003
Accumulated depreciation as of 1 January 2013	10 108 503	16 089 856	1 074 081	2 061 163	382 044	0	29 715 647
Write-off and sale of	0	(189 474)	(10 922)	(2 476)	0	0	(202 872)
Depreciation	823 217	967 408	83 752	35 188	71 633	0	1 981 198
Depreciation (grants)	253 032	347 487	0	0	0	0	600 519
Accumulated depreciation as of 30 September 2013	11 184 752	17 215 277	1 146 911	2 093 875	453 677	0	32 094 492
<b>Net book value as of 30 September 2013</b>	<b>22 540 206</b>	<b>7 167 999</b>	<b>242 131</b>	<b>64 312</b>	<b>979 987</b>	<b>24 000</b>	<b>31 018 635</b>
Cost as of 1 January 2014	36 096 406	24 413 239	1 389 042	2 151 169	1 915 219	24 000	65 989 075
Additions	0	100 510	88 859	92 215	62 000	15 260	358 844
Write-off and sale of	0	0	0	(557)	(5 000)	0	(5 557)
Reclassificationnns	0	24 000	0	0	0	(24 000)	0
Cost as of 30 September 2014	36 096 406	24 537 749	1 477 901	2 242 827	1 972 219	15 260	66 342 362
Accumulated impairment of 1 January 2014	2 371 448	0	0	0	477 555	0	2 849 003
Accumulated impairment of 30 September 2014	2 371 448	0	0	0	477 555	0	2 849 003
Accumulated depreciation as of 1 January 2014	11 543 502	17 565 122	1 172 525	2 073 665	477 555	0	32 832 369
Write-off and sale of	0	0	0	(556)	0	0	(556)
Depreciation	823 218	821 704	78 584	35 825	71 633	0	1 830 964
Depreciation (grants)	253 032	347 487	0	0	0	0	600 519
Accumulated depreciation as of 30 September 2014	12 619 752	18 734 313	1 251 109	2 108 934	549 188	0	35 263 296
<b>Net book value as of 30 September 2014</b>	<b>21 105 206</b>	<b>5 803 436</b>	<b>226 792</b>	<b>133 893</b>	<b>945 476</b>	<b>15 260</b>	<b>28 230 063</b>

## Notes

	In LTL	Jan-Sep 2014	Jan-Sep 2013
<b>14 Property, plant and equipment (cont'd)</b>			
<b>Distribution of depreciation costs</b>			
Cost of sales and write-off		(1 097 782)	(1 200 536)
Inventories		(85 841)	(114 547)
Administrative and other expenses		(647 341)	(666 115)
<b>Total distribution of depreciation cost</b>		<b>(1 830 964)</b>	<b>(1 981 198)</b>
	In LTL	30.09.2014	31.12.2013
<b>15 Financial assets</b>			
Long-term loans granted		2 893 560	3 164 077
Interest receivable		667 308	774 346
Investments in associated companies		5 000	5 000
Trade receivables from comp. from the group		2 788 076	3 342 046
<b>Total financial assets</b>		<b>6 353 944</b>	<b>7 285 469</b>
The loan was issued in Euros. Term of repayment of the loan and interest – March 2020.			
	In LTL	30.09.2014	31.12.2013
<b>16 Inventories</b>			
Raw materials		6 725 049	3 725 902
Finished goods		2 343 770	2 222 888
Goods for resale		906 912	813 489
Work in progress		152 549	61 033
<b>Total inventories</b>		<b>10 128 280</b>	<b>6 823 312</b>
As of 30 <sup>th</sup> of September 2014, the remainder of inventories stored at the third parties warehouses is worth of LTL 1 963 195.			
	In LTL	30.09.2014	31.12.2013
<b>17 Prepayments and deferred expenses</b>			
Prepayments to suppliers		416 701	169 287
Deferred advertising expenses		42 446	37 840
Other expenses		53 456	183 154
<b>Total prepayments and deferred expenses</b>		<b>512 603</b>	<b>390 281</b>

## Notes

In LTL	30.09.2014	31.12.2013
<b>18 Trade receivables</b>		
Trade receivables from comp. not from the group	22 671 384	27 546 119
Impairment allowance from comp. not from the group	(563 311)	(712 049)
Trade receivables from comp. from the group	4 240 161	3 574 707
Impairment allowance from comp. from the group	(965 796)	(824 007)
<b>Net trade receivables</b>	<b>25 382 438</b>	<b>29 584 770</b>
In LTL	30.09.2014	31.12.2013
<b>Change in impairment of receivables for bad debts</b>		
Impairment allow. for bad debts at the beginning of the period	(1 536 056)	(149 249)
Impairment allowance	(757 593)	(1 409 144)
Reverse of impairment allowance	764 542	22 337
<b>Impairment allowance for bad debts at the end of the period</b>	<b>(1 529 107)</b>	<b>(1 536 056)</b>
In LTL	30.09.2014	31.12.2013
<b>19 Other receivables</b>		
Interest receivable	310 666	505 036
Short-term loans granted	840 517	0
Tax paid in advance	65 682	0
Other receivables	1 646	2 875
Doubtful receivables	486 279	487 510
<b>Total other receivables before write-down allowance</b>	<b>1 704 790</b>	<b>995 421</b>
Impairment allowance	(486 216)	(487 510)
<b>Total other receivables, net</b>	<b>1 218 574</b>	<b>507 911</b>
In LTL	30.09.2014	31.12.2013
<b>Change in impairment allowance of receivables</b>		
Impairment allow. for receivables at the beginning of the period	(487 510)	(489 338)
Reverse of impairment allowance	1 294	1 828
<b>Impairment allowance for receivables at the end of the period</b>	<b>(486 216)</b>	<b>(487 510)</b>



## Notes

In LTL	30.09.2014	31.12.2013
<b>20 Cash and cash equivalents</b>		
Cash at bank and in hand	879	961
<b>Total cash and cash equivalents</b>	<b>879</b>	<b>961</b>

## 21 Capital and reserves

### Share capital

The share capital is made of 24 408 431 ordinary shares with the nominal value of LTL 1 each, and the total share capital is LTL 24 408 431, fully paid. The holders of the ordinary shares are entitled to one vote per share in the shareholders' meeting and are entitled to dividends as 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 percent of the retained earnings available for distribution are required until legal reserve and the share premium reach 10 percent of the authorised capital. This reserve cannot be distributed.

## 22 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-Sep 2014	Jan-Sep 2013
Number of shares	24 408 431	24 408 431
Profit (loss) for the period attributable to the equity holders, in LTL	2 504 685	649 851
<b>Basic and diluted earnings (loss) per share, in LTL</b>	<b>0.10</b>	<b>0.03</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.

## Notes

In LTL	30.09.2014	31.12.2013
<b>23 Interest bearing loans and borrowings</b>		
<b>Non-current liabilities</b>		
Bank loans	631 757	2 527 295
Financial lease (leasing) liabilities	250 457	282 532
<b>Total non-current liabilities</b>	<b>882 214</b>	<b>2 809 827</b>
<b>Current liabilities</b>		
Overdraft, factoring	11 986 983	16 282 799
Bank loans	2 527 383	2 527 383
Financial lease (leasing)	144 083	177 379
<b>Total current liabilities</b>	<b>14 658 449</b>	<b>18 987 561</b>
<b>Total</b>	<b>15 540 663</b>	<b>21 797 388</b>

In LTL	Total	Up to 1 year	1-5 years	Over 5 ears
<b>Schedule of repayment</b>				
Bank overdraft	11 986 983	11 986 983	0	0
Factoring	0	0	0	0
Bank loans	3 159 140	2 527 383	631 757	0
Financial lease	394 540	144 083	250 457	0
<b>Total financial liabilities</b>	<b>15 540 663</b>	<b>14 658 449</b>	<b>882 214</b>	<b>0</b>

The due date of repayment of long-term bank credits is December 2015. Line of credit agreement of the bank was prolonged until September 2016 provided the right of the bank to terminate the agreement in 2015. Factoring limit agreement of the bank was also prolonged until October 2016 provided the right of the bank to terminate the agreement in 2015. In order to secure the bank loans, the Company has pledged its assets. For further comments refer to Note 28.

Under financial lease agreements, the Company's assets consist of vehicles. Financial lease terms are up to 3 years.

In LTL	30.09.2014	31.12.2013
<b>24 Governmental grants</b>		
Balance value at the beginning of the period	8 856 446	9 657 138
Grants received	0	0
Amortization	(600 520)	(800 692)
<b>Balance value at the end of the period</b>	<b>8 255 926</b>	<b>8 856 446</b>

The support was granted of the Project "Using distillery refuse (broga) for the production of electric power" for acquisition of non-current assets. The Project was finished in 2012. Part of the produced electric power is sold, and another part is used in the industrial activities of the Company. The amortization of the grant is accounted in the items of the „cost of sales" of the Comprehensive Income Statement. The amortization of the grant decreases the cost of depreciation of the related non-current tangible assets.

## Notes

In LTL	30.09.2014	31.12.2013
<b>25 Other payables</b>		
Payable excise tax	6 796 253	4 340 275
Payable VAT	2 236 117	3 073 511
Payable profit tax	75 271	0
Wages, vacation reserve and social security	855 397	616 226
Other taxes payable	155 258	63 704
Accrued expenses	73 756	85 715
Other payables	143 567	45 394
<b>Total other payables</b>	<b>10 335 619</b>	<b>8 224 825</b>

## 26 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.



## **Notes**

### **26 Financial risk management (cont'd)**

#### **Liquidity risk**

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

The Company's policy is to maintain sufficient cash to cover planned operating expenditure, including financial liabilities; such security does not cover the influence unforecastable force majeure (such as natural calamities). Moreover, the Company has concluded a contracts for bank overdrafts in LTL and EUR.

#### **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 30<sup>th</sup> September 2014, 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 3.4528. 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. Equity makes at least 50 percent of authorised capital with share premium.

The Company's capital management policy did not change.

## Notes

### 27 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.

#### 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
Belvedere Scandinavia A/S	Belvedere group company
Sobieski Destylarnia S.A.	Belvedere group company
Vinimpex PLC	Belvedere group company
UAB Belvedere Baltic	Belvedere group company
Fabryka Wodek Polmos Lancut	Belvedere group company
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
SIA Belvedere Distribution	Belvedere group company
UAB „Business decisions group“	Shareholders related
Natural persons	Shareholders, Members of board, Managers (directors)

## Notes

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

#### Sales to and purchases from related parties

	Type of transaction	Jan-Sep 2014	Jan-Sep 2013
Purchases	Inventories	216 537	461 151
Purchases	Services	476 153	344 964
<b>Total purchases</b>		<b>692 690</b>	<b>806 115</b>
Sales	Inventories incl.excise tax	35 315 441	32 720 623
Sales	Services	72 815	79 799
Sales	Interest	203 200	201 147
Total sales incl.excise tax		<b>35 591 456</b>	<b>33 001 569</b>
Excise tax		(25 392 123)	(21 222 899)
<b>Total sales net of excise tax</b>		<b>10 199 333</b>	<b>11 778 670</b>
<b>Balances outstanding with related parties</b>		30.09.2014	31.12.2013
<b>Trade receivables</b>		<b>11 740 288</b>	<b>11 360 212</b>
Impairment allowance from comp. from the group		(965 796)	(824 007)
<b>Net trade receivables</b>		<b>10 774 492</b>	<b>10 536 205</b>
<b>Trade payables</b>		<b>345 261</b>	<b>367 492</b>

Information on the loans granted to the associated companies and amounts of interest payable (in this note provided as amounts receivable) is provided in Note 15 and in Note 19. Raw materials for alcoholic beverages production as well as alcoholic beverages are purchased from Belvedere group companies. Alcoholic beverages and rectified ethyl alcohol are sold to Belvedere group companies. Interest rates and all outstanding related party transactions are priced at market prices. Personnel expenses to the Company's management (directors) is enclosed in the Note 8.

### 28 Off-balance liabilities

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

In LTL	30.09.2014	31.12.2013
Carrying amount of pledged buildings and structures	20 484 122	21 544 529
Carrying amount of pledged equipments	4 660 029	5 383 136
Carrying amount of pledged trademarks	9 378 029	10 087 292
Carrying amount of pledged inventories	10 128 280	6 823 312
Cash and cash equivalents in accounts of bank	764	704
Amounts receivable from buyers (the right of claim)	25 382 438	29 584 770
Rights of land lease	0	0

Value of pledged assets in this table is equal to the value of financial statements. The Company controls and executes the financial liabilities, indices set by the bank and additional requirements.

## Notes

### 29 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 30<sup>th</sup> of September 2014 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 and financial liabilities as on the 30<sup>th</sup> of September 2014

In LTL	Carrying amount	Fair value
Granted long-term loans and other receivables, investments	6 353 944	6 353 944
Advance payments and deferred expenditure	512 603	512 603
Trade receivables	25 382 438	25 382 438
Other receivables	1 218 574	1 218 574
Cash and cash equivalents	879	879
<b>Total financial assets</b>	<b>33 468 438</b>	<b>33 468 438</b>
Loan and other interest-bearing amounts	15 540 663	15 540 663
Trade payables	7 310 824	7 310 824
Other payables	10 335 619	10 335 619
<b>Total financial liabilities</b>	<b>33 187 106</b>	<b>33 187 106</b>

### 30 Events after the reporting period

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