AB VILNIAUS DEGTINĖ

Annual Financial Statements and
Annual Statement for the year ended
31 December 2017

APPROVED
by the General Shareholder's Meeting on

Contents

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by the General Shareholder's Meeting on

Company Information

AB Vilniaus degtinė

Telephone:	+ 370 5 233 08 19
Telefax:	+ 370 5 231 50 52
Company number:	120057287
Registered at:	Panerių St. 47, Vilnius, Lithuania

Management

Raimonda Pilkė, Acting Director General and CFO

Dalius Rutkauskas, Sales Director for Export

Rimas Budreika, Production Director

Board

Anna Maria Jakubowski

Dalius Rutkauskas

Genadij Jurgelevič

Dovilė Tamoševičienė

Kęstutis Dapkevičius

Supervisory board

Jean Noel Reynaud

Stephane Laugery

Aymeric Donon

Auditor

KPMG Baltics, UAB

Banks

AB DNB bankas

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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, me, the Acting Director General and CFO Raimonda Pilkė of AB Vilniaus degtinė, confirm that as I know, the audited Annual Financial Statements of AB Vilniaus degtinė for the year ended on the 31th December 2017, 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, and the Annual Statement of AB Vilniaus degtinė for the year ended on the 31th December 2017 provides a clear review of business development and operation, condition of the company, together with the description of major risks and uncertainties which the company faces.

AB Vilniaus degtinė
Acting Director General and CFO
Raimonda Pilkė

Vilnius,
24 April 2018

APPROVED
by the General Shareholder's Meeting on

Board Confirmation of the Annual Financial Statements

The Board has approved the Annual Financial Statements, the Annual Statement of AB Vilniaus degtinė for the year ended on the 31th December 2017.

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 reveal true and realistic condition of AB Vilniaus degtinė.

We recommend that the Financial Statements and Annual Statement be approved by the General Shareholders' Meeting.

AB Vilniaus degtinė
Chairwoman of the Board
Anna Maria Jakubowski

AB Vilniaus degtinė
Board Member
Genadij Jurgelevič

AB Vilniaus degtinė
Board Member
Dalius Rutkauskas

AB Vilniaus degtinė
Board Member
Kęstutis Dapkevičius

AB Vilniaus degtinė
Board Member
Dovilė Tamoševičienė

Vilnius,
24 April 2018

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Independent Auditor's Report

To the Shareholders of AB Vilniaus degtinė

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AB Vilniaus degtinė ("the Company"). The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017,
- the comprehensive income statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the cash flows statement for the year then ended, and
- the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Company code: 111494971
VAT code: LT114949716

Sales rebates	
We refer to Note 2 and Note 5 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Revenue is measured taking account of discounts, incentives and rebates granted to the Company's customers. Due to the multitude and variety of contractual terms across the Company's markets, the estimation of discounts, incentives and rebates recognised based on sales made during the year is considered to be complex. Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer. The Company focuses on revenue as a key performance measure, what could create an incentive for revenue to be recognised before the risks and rewards have been transferred. In consequence, there is a risk that revenue may be overstated because of fraud resulting from the pressure management may feel to achieve performance targets at the end of the reporting period.	Our audit procedures included: We considered the appropriateness of the Company's revenue recognition accounting policies, including those relating to discounts, incentives and rebates, and assessed compliance of these policies with the applicable accounting standards. We evaluated design and implementation, and tested the operating effectiveness of the Company's controls over correct timing of revenue recognition. For a sample of key customers, we inspected respective contractual terms and independently recalculated the amounts of discounts, incentives and rebates due by reference to those terms. We analysed sales transactions taking place before the date of the statement of financial position as well as credit notes issued after the year end date to assess whether the revenue was recognised in the appropriate period. On a sample basis we obtained confirmations directly from customers which represent 93.7% of sales realized during the year (EUR 68.0 million from EUR 72.5 million) and also 93% of amounts due as at 31 December 2017 (EUR 9.4 million from EUR 10.1 million) and agreed any significant differences between confirmations received and the Company's records to the underlying documents, such as Issued invoices. We also considered the adequacy of the Company's disclosures (Note 5) in respect of revenue.

Other Information

The other information comprises the information included in the Company's annual management report, including Corporate Governance Statement, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the Company's annual management report, including Corporate Governance Statement, for the financial year for which the financial statements are prepared is consistent with the financial statements and whether annual management report, including Corporate Governance Statement, has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of financial statements, in our opinion, in all material respects:

- The information given in the Company's annual management report, including Corporate Governance Statement, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Company's annual management report, including Corporate Governance Statement, has been prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Under decision of the extraordinary general shareholders' meeting we were appointed on 15 September 2015 for the first time to audit the Company's financial statements. Our appointment to audit the Company's financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 3 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and its Audit Committee together with this independent auditor's report.

We confirm that in light of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of financial statements.

On behalf of KPMG Baltics, UAB

Ieva Voverienė
Certified Auditor

Vilnius, the Republic of Lithuania
24 April 2018

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by the General Shareholder's Meeting on

Statement of Financial Position

As at 31 December

In EUR	Notes	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	12,143,489	12,588,549
Intangible assets	13	1,987,149	2,271,613
Financial assets	15	410,840	578,972
Total non-current assets		**14,541,478**	**15,439,134**
Current assets			
Inventories	16	2,738,487	2,305,019
Prepayment	17	153,855	173,377
Trade receivables	18	10,142,678	7,342,357
Other receivables	19	506,049	397,998
Cash and cash equivalents	20	604,838	1,761,520
Total current assets		**14,145,907**	**11,980,271**
TOTAL ASSETS		**28,687,385**	**27,419,405**

Notes on pages 17–48 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
24 April 2018

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by the General Shareholder's Meeting on

Statement of Financial Position (cont'd)

As at 31 December

In EUR	Notes	2017	2016
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	7,078,445	7,078,445
Legal reserve	21	707,845	706,917
Other reserves		(4,789)	(11,912)
Retained earnings		8,396,690	7,187,572
Total equity		**16,178,191**	**14,961,022**
Non-current liabilities			
Interest bearing loans and borrowings	23	1,280,321	2,060,431
Governmental grants	24	1,637,417	1,869,314
Deferred tax liability	11	216,313	263,162
Total non-current liabilities		**3,134,051**	**4,192,907**
Current liabilities			
Interest bearing loans and borrowings	23	1,212,060	1,119,492
Trade payables		2,703,672	2,681,538
Income tax payables	12	25,436	297,486
Other payables	25	5,433,975	4,166,960
Total current liabilities		**9,375,143**	**8,265,476**
Total liabilities		**12,509,194**	**12,458,383**
TOTAL EQUITY AND LIABILITIES		**28,687,385**	**27,419,405**

Notes on pages 17–48 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
24 April 2018

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Comprehensive Income Statement

For the year ended 31 December

In EUR	Notes	Jan-Dec 2017	Jan-Dec 2016
Sales revenue	5	**72,582,565**	**62,503,846**
Excise duty		(47,552,242)	(39,936,686)
Sales revenue excluding excise duty		**25,030,323**	**22,567,161**
Cost of sales	7	(16,950,402)	(14,506,683)
Gross profit	5	**8,079,921**	**8,060,478**
Other income	6	351,453	367,839
Sales and distribution expenses	7	(2,602,514)	(2,447,340)
Administrative expenses	7	(4,106,431)	(3,542,165)
Other expenses	6	(6,796)	(7,233)
Result from operating activities		**1,715,633**	**2,431,579**
Financial income	9	18,347	78,270
Financial expenses	9	(311,914)	(179,521)
Profit (loss) before tax		**1,422,066**	**2,330,327**
Income tax	10	(212,020)	(327,676)
Profit (loss) for the period		**1,210,046**	**2,002,652**
Basic and diluted earnings per share	22	0.05	0.08

Notes on pages 17–48 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
24 April 2018

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Comprehensive Income Statement (cont'd)

For the year ended 31 December

In EUR	Notes	Jan-Dec 2017	Jan-Dec 2016
Profit (loss) for the period		**1,210,046**	**2,002,652**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Fair value losses arising during the year		(1,152)	(8,682)
Reclassif. adjustments for amounts recognised in profit or loss		9,532	10,389
		8,380	1,707
Income tax relating to items that may be reclassified subsequently to profit or loss		(1,257)	(256)
Other comprehensive income, net of income tax		7,123	1,451
TOTAL COMPREHENSIVE INCOME (EXPENSES)		**1,217,169**	**2,004,103**

Notes on pages 17–48 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
24 April 2018

Statement of Changes in Equity

For the year ended 31 December

In EUR	Notes	Share capital	Legal reserve	Cash flow hedging reserve	Retained earnings (loss)	Total shareholders' equity
Capital and reserves as at 1 January 2016		**7,078,445**	**706,917**	**(13,363)**	**5,184,921**	**12,956,920**
Profit (loss) for January-December of 2016		-	-	-	2,002,652	2,002,652
Other comprehensive income, net of income tax		-	-	1,451	-	1,451
Capital and reserves as at 31 December 2016		**7,078,445**	**706,917**	**(11,912)**	**7,187,572**	**14,961,022**
Capital and reserves as at 1 January 2017		**7,078,445**	**706,917**	**(11,912)**	**7,187,572**	**14,961,022**
Profit (loss) for January-December of 2017		-	-	-	1,210,046	1,210,046
Legal reserve		-	928	-	(928)	-
Other comprehensive income, net of income tax		-	-	7,123	-	7,123
Total comprehensive income of 2017		**-**	**928**	**7,123**	**1,209,118**	**1,217,169**
Capital and reserves as at 31 December 2017	21	**7,078,445**	**707,845**	**(4,789)**	**8,396,690**	**16,178,191**

Notes on pages 17–48 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius, 24 April 2018

Cash Flows Statement

For the year ended 31 December

In EUR	Notes	Jan-Dec 2017	Jan-Dec 2016
Profit (loss) for the period		1,210,046	2,002,652
Depreciation and amortization	13, 14	1,852,368	1,262,355
Impairment of trade and other receivables	18, 19	116,482	5,694
Net financial expenses		310,716	455,188
(Gain) loss on disposal and write-off of non-current assets		(19,649)	(1,730)
Income tax expenses		212,020	327,676
Net cash flows from ordinary activities before changes in working capital		3,681,983	4,051,835
Change in inventories		(433,468)	(127,452)
Change in prepayments		19,522	(17,164)
Change in trade and other receivables		(3,008,655)	1,735,004
Change in trade and other payables		1,589,190	(851,102)
Net cash flows from operating activities		(1,833,411)	739,286
Income tax paid	12	(532,176)	(166,668)
Net cash flows from operating activities		**1,316,396**	**4,624,453**
Interest received		1,846	23,435
Proceeds from disposal of non-current assets	6	65,450	1,739
Acquisition of property, plant and equipment	14	(1,358,534)	(3,386,821)
Acquisition of intangible non-current assets	13	(42,009)	(72,349)
Transfer of investments		-	1,448
Loans recovered		167,607	197,607
Net cash flows from investing activities		**(1,165,641)**	**(3,234,941)**
Repayment of loans		(1,018,048)	(769,675)
Loans received	23	211,748	1,314,852
Change of overdraft	23	1	(1,219,621)
Finance lease payments		(172,903)	(66,495)
Interest paid	23	(300,122)	(185,904)
Change in other financing activities	9	(28,113)	(12,391)
Net cash flows from financing activities		**(1,307,437)**	**(939,234)**
Net cash flows from operating, investing and financing activities		**(1,156,682)**	**450,278**
Cash and cash equivalents at the beginning of the period		**1,761,520**	**1,311,242**
Cash and cash equivalents at the end of the period		**604,838**	**1,761,520**

Notes on pages 17–48 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
24 April 2018

Notes

1 Reporting entity

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

AB Vilniaus Degtinė is a Lithuanian public listed company with shares traded on AB NASDAQ OMX Vilnius. During the Extraordinary Shareholders Meeting held on 4th of November 2016 AB Vilniaus Degtinė shareholders decided to delist the Company's shares from AB NASDAQ OMX Vilnius additional listing and cancel the public offering of shares of the Company.

As at the 31th of December 2017, its shares are held by the following shareholders

Shareholder	Number of shares	Nominal value in EUR	Total value in EUR
Marie Brizard Wine & Spirits Polska	16,668,632	0.29	4,833,903
Marie Brizard Wine & Spirits S.A.	7,471,703	0.29	2,166,794
Other shareholders	268,096	0.29	77,748
Total capital	**24,408,431**	**0.29**	**7,078,445**

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 in 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 continuously increasing.

The Company employed 157 staff members as at the 31th of December 2017 (169 staff members as at the 31th of December 2016).

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.

Basis of preparation

The financial statements are presented in the national currency euro, which is the functional currency of the Company. The financial statements are prepared on the historical basis except for financial derivatives that are carried at fair value.

The preparation of the financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, 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.

Notes

2 Summary of significant accounting principles (cont'd)

Basis of preparation (cont'd)

On the basis of the assumptions and estimates mentioned, the judgments 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 recognized 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.

Judgments 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 euros at foreign exchange rate which is set by the European Central Bank and by the Bank of Lithuania ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into euros at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized 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 recognized at fair value plus (except for the instruments recognized 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 derecognizes the financial assets when the contractual rights to the cash flows from this asset expire or when the right to receive the agreed cash flows from this financial asset is transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets are transferred. Financial liability is derecognized when it is covered, revoked or expired.

Notes

2 Summary of significant accounting principles (cont'd)

Non-derivative financial instruments (cont'd)

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 recognized 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 amortized cost on an effective interest method basis. Current liabilities are not discounted.

Financial derivatives

The Company uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the profit (loss) for the period if they do not qualify for hedge accounting.

Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction. The Company uses cash flow hedge.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other comprehensive income and the ineffective portion is recognized in the statement of comprehensive income (profit or loss). The gains or losses on effective cash flow hedges recognized initially in equity are either transferred to the statement of comprehensive income (profit or loss) in the period in which the hedged transaction impacts the statement of comprehensive income or included in the initial measurement of the cost of the related asset or liability.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of comprehensive income (profit or loss) for the period.

Notes

2 Summary of significant accounting principles (cont'd)

Hedge accounting (cont'd)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of comprehensive income (profit or loss).

In 2015 the Company has entered into interest swap agreement with a purpose to hedge itself against a possible fluctuation/increase of EURIBOR on the loan taken from a bank, i.e. effectively switching the interest into a fixed rate.

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 recognizes 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 recognized 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 licenses and trademarks acquired by the Company are stated at cost less accumulated amortization and impairment.

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

- Software and licenses 3 years
- Sobieski trademark 20 years

Subsequent expenses of intangible assets are capitalized 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 finance leases. Assets acquired by way of finance 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 realizable value. Net realizable value is the selling price, less the estimated cost of completion, marketing and distribution.

The costs of inventories is determined 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 recognized 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. Grants are carried at the fair value of non-current assets received or acquired.

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 recognized 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 reporting 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 reporting date.

An impairment loss is recognized 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 recognized 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 recognized.

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 amortization, if no impairment loss had been recognized.

Notes

2 Summary of significant accounting principles (cont'd)

Dividends

Dividends are recognized 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 recognized in the statement of financial position 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 recognized 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 recognized net of VAT and price discounts directly related to the sales.

Services rendered, assets disposed

Revenue from the services rendered is recognized 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 recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

No revenue is recognized 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 recognized in the income statement on a straight-line basis over the term of lease.

Finance 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 finance lease, so as to produce a constant periodic interest rate on the remaining balance of the liability.

Notes

2 Summary of significant accounting principles (cont'd)

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 recognized in the comprehensive income statement as accrued, using the effective interest method. The interest expense component of finance lease payments is recognized 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 recognized in the income statement except to the extent it relates to the items recognized directly in equity, in which case it is recognized 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 reporting 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 reporting date.

Deferred tax asset is recognized 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 off 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 of the standards during the year

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 2 to all periods presented in these financial statements.

A number of new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2017 and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

IFRS 15 Revenue from Contracts with Customers *and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016). (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)*

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

Notes

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

The Company has prepared an analysis of the expected impact of IFRS 15 on its financial statements, using the five-step model described in the standard. The five-step model was adapted to all existing sales contracts. Due to the nature of the Company's activities and the type of revenue it earns, the timing of the Company's revenue recognition will not change, upon initial application of IFRS 15; however, the value of revenue will change due to reclassification of trade support costs. As at 31 December 2017 such costs amounted to EUR 1,055.5 thousand (they are included in the sales and distribution expenses in the Comprehensive Income Statement). In the next financial year, this type of costs will reduce the value of revenue. There will be no impact on the Company's profit or loss for the period.

IFRS 9 Financial Instruments (2014) *(Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required and is permitted only if information is available without the use of hindsight. Early application is permitted.)*

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Notes

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

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Company does not expect IFRS 9 to have material impact on the financial statements. The classification and measurement of the Company's financial instruments are not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial instruments that it holds.

IFRS 16 Leases *(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)*

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Company does not expect that the new Standard, when initially applied, will have material impact on the financial statements.

Notes

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

Amendments to IFRS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture (the European Commission decided to defer the endorsement indefinitely.)*

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no subsidiaries, associates or joint ventures.

IFRS 17 Insurance Contracts *(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)*

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company does not operate in the insurance industry.

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. 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.

Impairment loses 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 recognized. In March 2016 property valuations have been carried out and showed no additional impairment losses compared to carrying amount as at 31 December 2017.

Impairment losses on trademark

The Company uses trademark "Sobieski", which is amortized 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.

Sales revenue recognition

Sales are recognized net of VAT and price discounts directly related to the sales.

Notes

5 Segment reporting

Taking into account the share of sales of the products being sold, the segments are identified as – 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.). The segments are not analysed by the Company's executives/management board along with the distribution of assets/liabilities. Other income as well as the revenues and costs of financial activity are not classified to the segments; profit taxes are controlled.

Revenue and gross profit for January-December 2017

In EUR	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Revenue	54,401,657	3,825,494	755,208	13,600,205	72,582,565
Excise duty	*(40,056,039)*	*(186,421)*	-	*(7,309,782)*	*(47,552,242)*
Revenue excluding excise duty	14,345,618	3,639,073	755,208	6,290,423	25,030,323
Gross profit	5,934,806	127,936	78,572	1,938,607	8,079,921

Revenue and gross profit for January-December 2016

In EUR	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Revenue	54,904,214	2,582,731	850,167	4,166,735	62,503,846
Excise duty	*(38,190,381)*	*(176,853)*	-	*(1,569,452)*	*(39,936,686)*
Revenue excluding excise duty	16,713,833	2,405,878	850,167	2,597,283	22,567,161
Gross profit	6,954,713	412,787	102,863	590,116	8,060,478

Notes

5 Segment reporting (cont'd)

Products are being sold in both the Lithuanian and EU markets, with exports being made to third countries. The sales revenue grew by 9.35 percent in the markets of the EU and by 103.46 percent in the third countries. Sales to Poland, Latvia, Estonia and France made up the largest portion of the income from the EU market. Sales to Ukraine, Russian Federation, Belarus made up the largest portion of the income from third countries.

The geographical segments have been classified into the following regions: Lithuania, EU countries, Third countries.

Revenue and gross profit by the geographical segments

	Jan-Dec 2017		Jan-Dec 2016	
In EUR	Revenue excluding excise duty	Gross profit	Revenue excluding excise duty	Gross profit
Lithuania	16,358,257	6,895,885	15,756,924	6,299,438
Other EU countries	6,024,413	572,499	5,508,954	1,223,204
Third countries	2,647,653	611,537	1,301,283	537,836
Total	**25,030,323**	**8,079,921**	**22,567,161**	**8,060,478**

In EUR	Jan-Dec 2017	Jan-Dec 2016
6 Income and expenses of other activities		
Lease of premises and utilities	37,397	35,734
Gain from sales of intangible assets	19,663	1,739
Gain from sales of materials and spare parts	67,969	67,478
Electricity sales profit	162,335	207,353
Transportation	27,655	30,352
Indemnification	14,483	3,171
Other income	21,951	22,012
Total other income	351,453	367,839
Other expenses	(6,796)	(7,233)
Total other expenses	(6,796)	(7,233)
Net income and expenses of other activities	**344,657**	**360,606**

Notes

	In EUR	Jan-Dec 2017	Jan-Dec 2016
7	**Cost of sales, sales and distribution, administrative expenses**		
	Advertising expenses	(1,533,610)	(1,567,648)
	Personnel expenses	(2,287,689)	(2,040,983)
	Raw materials and consumables	(14,972,103)	(13,261,492)
	Amortization and depreciation	(1,788,799)	(1,222,412)
	Transportation expenses	(347,827)	(320,504)
	Operating taxes	(570,144)	(483,630)
	Maintenance	(495,214)	(407,484)
	Other expenses	(1,663,961)	(1,192,035)
	Total cost of sales, sales and distribution, administrative expenses	**(23,659,347)**	**(20,496,188)**

	In EUR	Jan-Dec 2017	Jan-Dec 2016
8	**Personnel expenses**		
	Wages and salaries	(1,617,119)	(1,426,426)
	Vacation reserve	(186,432)	(163,198)
	Guarantee fund contributions	(20)	(3,161)
	Social security contributions	(563,025)	(494,738)
	Total personnel expenses	**(2,366,596)**	**(2,087,523)**

Total personnel expenses in January-December 2017 amounted to EUR 2,366,596, of which: (a) administrative EUR 1,178,763; (b) sales and distribution EUR 517,096; (c) direct labour EUR 670,737 (in 2016 – EUR 2,087,523, of which: (a) administrative EUR 1,037,782; (b) sales and distribution EUR 410,670; (c) direct labour EUR 639,071).

Redundancy payments for January-December 2017, inclusive of social security contributions and guarantee fund contributions, amounted to EUR 3,073 (in January-December 2016 – EUR 10,456).

Personnel expenses for the key management personnel (directors) in January-December 2017 amounted to EUR 207,215, of which: (a) short-term employee benefits EUR 207,215; (b) post-employment benefits EUR 0; (c) other long-term benefits EUR 0; (d) termination benefits EUR 0; and (e) share-based payment EUR 0 (in January-December 2016 – EUR 196,511, of which: (a) short-term employee benefits EUR 196,511; (b) post-employment benefits EUR 0; (c) other long-term benefits EUR 0; (d) termination benefits EUR 0; and (e) share-based payment EUR 0). No loans and (or) guarantees were granted to the management (directors) and no other financial liabilities or non-financial obligations were undertaken. Other significant transactions in detail are presented in Note 27.

The average number of employees for January-December 2017 was 160 (160 for January-December 2016).

Average number of key management personnel for January-December 2017 was 4 (4 for January-December 2016).

Notes

In EUR	Jan-Dec 2017	Jan-Dec 2016
9 Financial income and expenses		
Interest income	17,519	56,721
Other income	0	0
Foreign exchange gain	828	21,549
Total financial income	18,347	78,270
Interest expenses	(282,973)	(145,581)
Other expenses	(15,201)	(18,093)
Foreign exchange loss	(13,740)	(15,847)
Total financial expenses	(311,914)	(179,521)
Financial income and expenses, net	**(293,567)**	**(101,251)**

In EUR	Jan-Dec 2017	Jan-Dec 2016
10 Corporate income tax expenses		
Current income tax for the period	(260,126)	(353,917)
Income tax correction for previous periods	0	0
Change in deferred income tax	48,106	26,241
Total corporate income tax expenses	**(212,020)**	**(327,676)**

Reconciliation of effective profit tax rate

In EUR	Jan-Dec 2017		Jan-Dec 2016	
Profit before tax		1,422,066		2,330,327
Profit tax, applying valid tax rate	(15.0%)	(213,310)	(15.0%)	(349,549)
Non-taxable income	0.2%	2,172	0.0%	476
Non-deductible expenses	(0.0%)	(882)	(2.3%)	(54,341)
Exemption for the investment project	0.0%	0	3.2%	75,739
	(14.8%)	**(212,020)**	**(14.1%)**	**(327,676)**

Notes

11 Deferred tax

In EUR	31/12/2017 Temporary differences	31/12/2017 Deferred tax (15%)	31/12/2016 Temporary differences	31/12/2016 Deferred tax (15%)
Impairment of trade receivables	224,856	33,728	107,820	16,173
Depreciation of construction in progress	387,266	58,090	359,605	53,941
Impairment of building and land	686,819	103,023	686,819	103,023
Write off of inventories	48,865	7,330	48,865	7,330
Accrued soc. security exp. for vacation reserve	38,173	5,726	43,437	6,515
Accrued expenses	9,676	1,452	2,180	327
Cash flow hedge reserve	5,634	845	14,014	2,102
Total deferred tax asset		**210,194**		**189,411**
Difference in depreciation of property, plant and equipment	1,004,345	150,651	899,588	134,938
Difference in amortization of intangible assets	1,825,926	273,889	2,099,815	314,972
Carrying value of non-current assets that are subject to investment relief	13,111	1,967	17,751	2,663
Total deferred tax liability		**426,507**		**452,573**
Deferred tax, net		**(216,313)**		**(263,162)**

In EUR	Jan-Dec 2017	Jan-Dec 2016
Change in the deferred tax		
Deferred tax liability at the beginning of the period	(263,162)	(289,147)
Deferred tax expenses	48,106	26,241
Deferred income tax relating to cash flow hedge	(1,257)	(256)
Deferred tax liability at the end of the period	**(216,313)**	**(263,162)**

12 Corporate income tax

In EUR	Jan-Dec 2017	Jan-Dec 2016
Overpaid corpor. income tax (liability) at the beginning of the period	(297,486)	(110,237)
Income tax paid during the period	532,176	166,668
Income tax overpayment from previous periods	0	0
Current income tax for the period	(260,126)	(353,917)
Overpaid corpor. income tax (liability) at the end of the period	**(25,436)**	**(297,486)**

Notes

13 Intangible assets

In EUR	Trademarks	Software	Other	Total
Cost as at 1 January 2016	5,484,400	228,240	13,270	5,725,910
Additions	4,265	27,102	40,982	72,349
Write-off	0	(29,242)	0	(29,242)
Reclassification	0	0	0	0
Cost as at 31 December 2016	5,488,665	226,100	54,252	5,769,017
Accumulated amortization as at 1 January 2016	3,104,074	89,175	13,270	3,206,519
Amortization	275,544	41,757	2,826	320,127
Write-off	0	(29,242)	0	(29,242)
Accumulated amortization as at 31 December 2016	3,379,618	101,690	16,096	3,497,404
Net book value as of 31 December 2016	**2,109,047**	**124,410**	**38,156**	**2,271,613**
Cost as at 1 January 2017	5,488,665	226,100	54,252	5,769,017
Additions	0	30,791	11,218	42,009
Write-off	0	(4,344)	0	(4,344)
Reclassification	(4,265)	5,654	(1,389)	0
Cost as at 31 December 2017	5,484,400	258,201	64,081	5,806,682
Accumulated amortization as at 1 January 2017	3,379,618	101,690	16,096	3,497,404
Amortization	275,722	43,982	6,769	326,473
Write-off	0	(4,344)	0	(4,344)
Reclassification	(178)	0	178	0
Accumulated amortization as at 31 December 2017	3,655,162	141,328	23,043	3,819,533
Net book value as at 31 December 2017	**1,829,238**	**116,873**	**41,038**	**1,987,149**

All amortization expenses are included under administrative expenses.

At the end of 2017, the acquisition cost of the Company’s fully amortized and in-use intangible assets amounted to EUR 43.6 thousand.

Notes

14 Property, plant and equipment

In EUR	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Construc- tion in progress	Other	Total
Cost as at 1 January 2016	11,014,362	6,821,475	460,225	520,717	2,079,427	950,854	21,847,060
Additions	22,456	817,665	312,191	73,691	2,160,818	0	3,386,821
Write-off and sale of	0	(41,511)	(43,471)	(31,855)	0	0	(116,837)
Reclassifications	733,949	3,308,649	0	0	(3,091,744)	(950,854)	0
Cost as at 31 December 2016	11,770,767	10,906,278	728,945	562,553	1,148,501	0	25,117,044
Accumulated impairment as at 1 January 2016	825,128	0	0	0	0	0	825,128
Impairment losses							
Accumulated impairment as at 31 December 2016	825,128	0	0	0	0	0	825,128
Accumulated depreciation as at 1 January 2016	4,357,951	5,459,715	347,559	480,843	0	0	10,646,068
Write-off and sale of	0	(41,505)	(43,470)	(31,850)	0	0	(116,825)
Depreciation	349,107	515,117	53,244	24,760	0	0	942,228
Depreciation (grants)	97,711	134,186	0	0	0	0	231,897
Accumulated depreciation as at 31 December 2016	4,804,769	6,067,513	357,333	473,753	0	0	11,703,368
Net book value as at 31 December 2016	**6,140,870**	**4,838,765**	**371,612**	**88,800**	**1,148,501**	**0**	**12,588,549**
Cost as at 1 January 2017	11,770,767	10,906,278	728,945	562 ,553	1,148,501	0	25,117,044
Additions	23,946	489,625	162,989	49,647	566,043	66,284	1,358,534
Write-off and sale of	(111,235)	(56,779)	(34,875)	(22,593)	0	0	(225,482)
Reclassifications	360,044	961,566	0	0	(1,321,610)	0	0
Cost as at 31 December 2017	12,043,522	12,300,690	857,059	589,607	392,934	66,284	26,250,096
Accumulated impairment as at 1 January 2017	825,128	0	0	0	0	0	825,128
Accumulated impairment as at 31 December 2017	825,128	0	0	0	0	0	825,128
Accumulated depreciation as at 1 January 2017	4,804,769	6,067,513	357,333	473,753	0	0	11,703,368
Write-off and sale of	(65,448)	(56,776)	(34,874)	(22,583)	0	0	(179,681)
Depreciation	373,468	1,002,057	115,499	34,871	0	0	1,525,895
Depreciation (grants)	97,711	134,186	0	0	0	0	231,897
Accumulated depreciation as at 31 December 2017	5,210,500	7,146,980	437,958	486,041	0	0	13,281,479
Net book value as at 31 December 2017	**6,007,894**	**5,153,710**	**419,101**	**103,566**	**392,934**	**66,284**	**12,143,489**

Notes

14 Property, plant and equipment (cont'd)

In 2017 additions of construction in progress amounted to EUR 566,043 and comprises investment into reconstruction of Bio-fuel boiler, completion of installation of distillation-rectifying line for ethyl alcohol and financing of new projects.

At the end of 2017, the acquisition cost of the Company's fully depreciated and in-use property, plant and equipment amounted to EUR 4,515.8 thousand.

In EUR	Jan-Dec 2017	Jan-Dec 2016
Split and write-off of depreciation costs		
Cost of sales	1,153,703	650,319
Inventories	63,569	39,943
Administrative and other expenses	308,623	251,966
Total depreciation cost	**1,525,895**	**942,228**

In EUR	31/12/2017	31/12/2016
15 Financial assets		
Long-term loans granted to related parties	410,213	577,820
Interest receivable	627	1,152
Total financial assets	**410,840**	**578,972**
Short-term share of loans granted (Note 19)		
Short-term share of long-term loans granted to related parties	362,607	362,607
Total loans granted to related parties	**772,820**	**940,427**

Loans were issued to related parties in euros (Note 27). Terms of repayment of loans and interest are 31 December 2018 and 19 March 2020. Issued loans are not secured. They are repaid in equal annual instalments and have a variable interest rate. Effective interest rate per year is 2.26 percent.

In EUR	31/12/2017	31/12/2016
16 Inventories		
Raw materials	1,477,362	1,401,341
Finished goods	664,613	571,687
Goods for resale	604,302	339,601
Work in progress	41,075	41,255
Write-down of raw materials	(48,865)	(48,865)
Total inventories	**2,738,487**	**2,305,019**

As at 31 December 2017, the amount of inventories stored at the third parties warehouses is EUR 83,032 (31 December 2016 – EUR 175,110).

The cost of inventories recognised as a cost of sales and selling and distribution expenses during the year 2017 was EUR 14,972.1 thousand (31 December 2016 – EUR 13,261.5 thousand).

Notes

In EUR	31/12/2017	31/12/2016
17 Prepayments and deferred expenses		
Prepayments to suppliers	60,782	67,633
Deferred advertising expenses	35,682	38,436
Other	57,391	67,308
Total prepayments and deferred expenses	**153,855**	**173,377**

In EUR	31/12/2017	31/12/2016
18 Trade receivables		
Trade receivables	7,078,470	5,224,108
Impairment allowance	(224,856)	(107,820)
Trade receivables from related parties	3,289,064	2,226,069
Impairment allowance from related parties	0	0
Total trade receivables, net	**10,142,678**	**7,342,357**

In EUR	31/12/2017	31/12/2016
Change in impairment of receivables for bad debts		
Impairment allowance at the beginning of the period	(107,820)	(101,547)
Charge for the year	(117,036)	(6,623)
Reverse of impairment allowance	0	350
Impairment allowance for bad debts at the end of the period	**(224,856)**	**(107,820)**

Analysis of trade receivables based on the terms of payment as at 31 December 2017

			Delayed receivables		
In EUR	Total	Receivables not due	up to 90 days	from 91 to 180 days	181 days or more
Trade receivables	7,078,470	6,345,301	483,928	10,691	238,550
Receiv. from group companies	3,289,064	1,675,216	802,552	191,765	619,531
Impairment allowance	(224,856)	0	0	0	(224,856)
Total trade receivables	**10,142,678**	**8,020,517**	**1,286,480**	**202,456**	**633,225**

Delayed receivables from group companies is a debt of a subsidiary which is currently in the development phase and the management does not see risk in the long-term period.

Notes

Analysis of trade receivables based on the terms of payment as at 31 December 2016

In EUR	Total	Receivables not due	Delayed receivables up to 90 days	Delayed receivables from 91 to 180 days	Delayed receivables 181 days or more
Trade receivables	5,224,108	4,963,515	122,085	20,511	117,997
Receiv. from group companies	2,226,069	1,738,997	177,636	95,886	213,550
Impairment allowance	(107,820)	0	0	0	(107,820)
Total trade receivables	**7,342,357**	**6,702,512**	**299,721**	**116,397**	**223,727**

In EUR	31/12/2017	31/12/2016
19 Other receivables		
Interest receivable	33,884	17,685
Short-term share of long-term loans granted to related parties	362,607	362,607
Tax paid in advance	77,773	2,592
Other receivables	170,856	154,738
Total other receivables before write-down allowance	**645,120**	**537,622**
Impairment allowance	(139,071)	(139,624)
Total other receivables, net	**506,049**	**397,998**

Loans were issued to related parties in euros (Note 27). Term of repayment of loans and interest – 31 December 2018 and 19 March 2020. Issued loans are not secured. They are repaid in equal annual instalments and have a variable interest rate.

In EUR	31/12/2017	31/12/2016
Change in impairment allowance of receivables		
Impairment allow. for receivables at the beginning of the period	**(139,624)**	**(140,203)**
Reverse of impairment allowance	553	579
Impairment allowance for receivables at the end of the period	**(139,071)**	**(139,624)**

Notes

In EUR	31/12/2017	31/12/2016
20 Cash and cash equivalents		
Cash at bank	604,838	1,761,520
Total cash and cash equivalents	**604,838**	**1,761,520**

21 Capital and reserves

Share capital

The share capital is made of 24,408,431 ordinary shares with the nominal value of EUR 0.29 each, and the total share capital is EUR 7,078,445 (EUR 7,078,445 in 2016), 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. They also have other property and non-property rights established by the Law on Companies of the Republic of Lithuania, other laws and regulations.

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. Legal reserve is fully formed at the end of 2017. This reserve cannot be distributed and can be used only to cover accumulated losses.

22 Basic and diluted earnings (loss) per share

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

	Jan-Dec 2017	Jan-Dec 2016
Average number of shares, pcs.	24,408,431	24,408,431
Profit (loss) for the period attributable to the equity holders, in EUR	1,210,046	2,002,652
Basic and diluted earnings (loss) per share, in EUR	**0.05**	**0.08**

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 EUR	31/12/2017	31/12/2016
23 Interest bearing loans and borrowings		
Non-current liabilities		
Bank loans	970,558	1,826,530
Interest rate swap	5,634	14,014
Finance lease (leasing) liabilities	304,129	219,887
Total non-current liabilities	**1,280,321**	**2,060,431**
Current liabilities		
Bank loans	1,067,721	1,018,047
Finance lease (leasing)	144,339	101,445
Total current liabilities	**1,212,060**	**1,119,492**
Total	**2,492,381**	**3,179,923**

Below are presented changes during the year 2017 related with financial liabilities:

In EUR	2017	2016
Movement of financial liabilities		
Financial liabilities at the beginning of the period	3,179,923	3,624,707
Loans received	211,748	1,314,852
Repayment of loans	(1,018,048)	(769,675)
Repayment of overdraft	0	(1,219,621)
Interest calculated	300,122	185,904
Interest paid	(300,122)	(185,904)
Finance lease received	300,040	297,862
Finance lease payments	(172,903)	(66,495)
Interest rate swap increase	0	10,577
Interest rate swap decrease	(8,380)	(12,284)
Financial liabilities at the end of the period	**2,492,381**	**3,179,923**

In EUR	Total	Up to 1 year	1-5 years	Over 5 years
Schedule of repayment				
Bank loans (EURIBOR 3 month + margin)	2,038,279	1,067,721	970,558	0
Interest rate swap (EURIBOR 3 month)	5,634	0	5,634	0
Finance lease (EURIBOR 6 month, EURIBOR 3month + margin)	448,468	144,339	304,129	0
Total financial liabilities	**2,492,381**	**1,212,060**	**1,280,321**	**0**

The due date of repayment of long-term bank credits is September 2020. Line of credit agreement of the bank was extended until September 2019. Factoring limit agreement of the bank was also extended until November 2019. In order to secure bank loans, the Company has pledged its assets. For further comments refer to Note 28.

Under finance lease agreements, the Company's assets consist of vehicles. Finance lease terms are up to 5 years.

Notes

	In EUR	31/12/2017	31/12/2016
24	**Government grants**		
	Carrying amount at the beginning of the period	1,869,314	2,101,211
	Grants received	0	0
	Amortization	(231,897)	(231,897)
	Carrying amount at the end of the period	**1,637,417**	**1,869,314**

The support from EU structural funds under Priority 3 "Improving the efficiency of energy production" of Cohesion Action Plan was used for the acquisition of non-current assets under the Project "Using distillery refuse (broga) for the production of electric power". The Project was completed 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 for 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.

	In EUR	31/12/2017	31/12/2016
25	**Other payables**		
	Payable excise tax	3,865,483	2,822,473
	Payable VAT	1,270,956	991,950
	Wages, vacation reserve and social security	220,304	253,003
	Other taxes payable	6,647	43,089
	Accrued expenses	45,095	32,270
	Other payables	25,490	24,175
	Total other payables	**5,433,975**	**4,166,960**

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 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 annual 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 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.

Notes

26 Financial risk management (cont'd)

Credit risk (cont'd)

The Company controls credit risk or risk by using credit conditions and procedures of market analysis. The Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Each client is evaluated individually or as a group, if it is applicable. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external information in accordance with limits set by the Director General. The utilisation of credit limits is regularly monitored. If the limit is exceeded, it is approved by the Director General of the Company.

In addition, for local clients, based on the need the guarantee letter from shareholders of a company might be required in order to secure the accounts receivable. The Company uses factoring without regress for the biggest clients, where the credit risk still remaining in the statement of financial position is 10 percent. For export clients, the credit risk is managed by credit insurance, advance payment for sales or credit limits set and monitored, which are approved by the Director General of the Company. Credit risk management is documented in the credit management procedure.

Management of the Company believes that credit risk is managed properly and does not expect any losses from non-performance by significant counterparties.

The Company accounts for 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.

The Company had two customers, which accounted for more than 10 percent of the total turnover (excise tax excluded) of 2017 (customer No. 1 – 14 percent, customer No. 2 – 11 percent). Both customers are attributed to the Lithuanian market.

The Company has issued the guarantee to its related parties: repayments of financial liabilities (overdraft) for the related party company Prekyba alkoholiniais gėrimais UAB, which was equal to EUR 0 as at 31 December 2017; as at 31 December 2017 and the date of these financial statements, there were no implication of significant events arising from the issues described above.

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 best 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.

Cash flow forecasting is performed in the Company on the monthly and weekly basis. The rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, detailed information about coverage of the liabilities and other ratios, if needed.

Notes

26 Financial risk management (cont'd)

Liquidity risk (cont'd)

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 disasters). Moreover, the Company has concluded a contract for bank overdraft, which undrawn amount was equal to EUR 1,300 thousand as at 31 December 2017.

The analysis of the Company's non-derivative financial liabilities as to relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date is presented in below. The amounts disclosed are gross and undiscounted, and include contractual interest payments.

	Less than 1 year	1-5 years	>5 years	Total	Carrying amount
Year ended 31 December 2017					
Interest bearing loans and borrowings	1,254,678	1,305,057	-	**2,559,735**	**2,492,381**
Trade payables	2,703,672	-	-	**2,703,672**	**2,703,672**
Total current and non-current	**3,958,350**	**1,305,057**	**-**	**5,263,407**	**5,196,053**
Year ended 31 December 2016					
Interest bearing loans and borrowings	1,181,647	2,115,690	-	**3,297,337**	**3,179,923**
Trade payables	2,681,538	-	-	**2,681,538**	**2,681,538**
Total current and non-current	**3,863,185**	**2,115,690**	**-**	**5,978,875**	**5,861,461**

Market risk

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

Interest rate risk

As at 31 December 2017 the Company had borrowings which were subject to variable rates related to EURIBOR and created interest rate risk. On 21 August 2015, interest rate swap transaction was signed with effective date starting from 18 February 2016, maturity date – 31 July 2019. Under this contract the Company agrees to exchange, at specified intervals, the difference between fixed and variable (3M EURIBOR) rate interest amounts calculated by reference to an agreed-upon notional principal amount. As at 31 December 2017, outstanding amount of principal loan and swap notional amount is EUR 1,219 thousand.

Company's sensitivity to interest rate changes

Interest rate	**Impact on profit (loss) for the year**
+ 1 percent	+15,681
- 1 percent	-15,681

Notes

26 Financial risk management (cont'd)

Foreign exchange risk

As of 1 January 2015, the functional currency of the Company is the euro (EUR). The Company does not face significant foreign currency risk on purchases and borrowings that are denominated in currencies other than the euro. 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 complies with the requirement of the Law on Companies of the Republic of Lithuania stating that equity of a company should not be lower than 1/2 of its authorized capital. The Company's capital management policy did not change.

27 Related party transactions

Related parties of the Company are:

- parties that control or are under common control with the Company;
- parties that can have significant influence 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 significant influence of the aforesaid persons.

Parent and ultimate parent companies are as follows:

Company	Relationship
Marie Brizard Wine & Spirits Polska	Parent company
Marie Brizard Wine & Spirits SA	Ultimate parent company

Other main related parties are:

Company, person	Relationship
UAB Prekyba alkoholiniais gėrimais	Marie Brizard Wine & Spirits group company
MBWS Scandinavia A/S	Marie Brizard Wine & Spirits group company
Sobieski Destylarnia S.A.	Marie Brizard Wine & Spirits group company
UAB Prekių ženklų valdymas	Marie Brizard Wine & Spirits group company
Fabryka Wodek Polmos Lancut	Marie Brizard Wine & Spirits group company
Moncigale S.A.S.	Marie Brizard Wine & Spirits group company
Gognac Gautier	Marie Brizard Wine & Spirits group company
Marie Brizard Wine & Spirits France	Marie Brizard Wine & Spirits group company
Marie Brizard Espagne	Marie Brizard Wine & Spirits group company
Domain Menada Sp. Z o.o.	Marie Brizard Wine & Spirits group company
SIA MBWS Distribution	Marie Brizard Wine & Spirits group company
Natural persons	Shareholders, Board members, Management members (directors)

Notes

27 Related party transactions (cont'd)

Purchases from and sales to related parties

In EUR	Type of transaction	Jan-Dec 2017	Jan-Dec 2016
Purchases from:			
Ultimate parent company	Services	362,820	247,278
Marie Brizard Wine & Spirits group companies	Inventories	3,696,295	1,684,513
Marie Brizard Wine & Spirits group companies	Services	117,942	156,919
Other	Services	13,972	3,459
Total purchases		**4,191,029**	**2,092,169**
Sales to:			
Ultimate parent company	Interest	1,320	24,992
Ultimate parent company	Services	25,684	71,136
Marie Brizard Wine & Spirits group companies	Inventories incl. excise tax	17,649,248	14,654,615
Marie Brizard Wine & Spirits group companies	Services	135,239	68,388
Marie Brizard Wine & Spirits group companies	Interest	16,199	16,534
Other	Interest	0	0
Other	Services	210	17
Total sales		**17,827,900**	**14,835,682**
Excise tax		(11,279,415)	(8,838,472)
Total sales net of excise tax		**6,548,485**	**5,997,210**

Balances outstanding with related parties	31/12/2017	31/12/2016
Trade receivables from:		
Ultimate parent company	503,447	716,352
Marie Brizard Wine & Spirits group companies	3,592,948	2,468,981
Total trade receivables	**4,096,395**	**3,185,333**
Impairment allowance from group companies	0	0
Trade receivables, net	**4,096,395**	**3,185,333**
Trade payables to:		
Ultimate parent company	92,212	251,411
Parent company	10,260	10,260
Marie Brizard Wine & Spirits group companies	219,097	225,550
Total trade payables	**321,569**	**487,221**

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

Notes

28 Off-balance liabilities

No full tax investigation of the Company for the period from 1 January 2013 until 31 December 2017 has been performed by the tax authorities. According to effective tax legislation, the tax authorities may at any time perform investigation of the Company's accounting registers and records for the period of five years preceding the accounting tax period, as well as calculate additional taxes and penalties. Management of the Company is not aware of any circumstances which would cause calculation of additional tax liabilities.

As a security for the liabilities to financial institutions, the following assets have been pledged or transferred

In EUR	31/12/2017	31/12/2016
Pledged buildings and structures	1,189,361	1,407,156
Pledged equipment	5,237,160	4,927,564
Pledged trademark	1,825,926	2,099,815
Pledged inventories	2,738,487	2,305,019
Cash and cash equivalents in bank accounts (transferred)	604,838	1,761,520
Amounts receivable from buyers (transferred rights of claims)	10,142,678	7,342,357
Rights of land lease	-	-

Values of pledged assets in this table are equal to the values presented in the financial statements.

Based on the terms of the loan and overdraft agreements, the Company has to comply with certain financial and non-financial covenants. As at 31 December 2016 and 2017, the Company complied with all the debt covenants.

As at 31 December 2017 the Company had a legal claim regarding usage of brands with the possible total amount demanded equal to EUR 237 thousand. There was no provision accounted for in these financial statements regarding the claim mentioned above as the probability estimated is less than 50 percent and the possible claim amount could not be reliably measured.

29 Fair value of financial instruments

Key financial instruments of the Company which are not estimated at a fair value are trade and other accounts receivable, trade and other accounts payable, long-term and short-term loans.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement of the fair value is based on the assumption that the transaction of selling an asset or transferring a liability takes place either:

- on the primary asset or liability market, or
- if primary market is not available – on the market, which is the most favourable for an asset or a liability.

Primary or the most favourable market must be made available for the Company.

The fair value of a non-financial asset is measured by taking into account the ability of a market participant to generate the economic benefit by using an asset in the most efficient and optimal way or by selling the same to another market participant, who would use such asset in the most efficient and optimal way.

The Company applies such measurement methods, which are relevant under the prevailing circumstances and subject to having sufficient data for being able to measure the fair value, by using more of important observable input and less of unobservable input.

Notes

29 Fair value of financial instruments (cont'd)

All assets and liabilities, the fair value whereof is measured or disclosed in the financial statement, are categorized according to the following fair value hierarchy, which is based on the lowest level input that is significant to the measurement of the fair value:

- Level 1 inputs are quoted (non-adjusted) prices in active markets for identical assets or liabilities;
- Level 2 inputs are inputs that are observable, either directly or indirectly, for the asset or liability and that are significant in measuring the fair value;
- Level 3 inputs are unobservable inputs for the asset or liability that are significant in measuring the fair value.

Methods and assumptions applied in measuring fair values and their levels are described below:

- The carrying amount of short-term trade and other accounts receivable, short-term trade and other accounts payable, and short-term debts is close to their fair value because of short-term due date of instruments.
- The fair value of long-term debts and long-term accounts receivable is measured with reference to the same or similar market price or interest rate of the loan which is applied at the time to the debts of the same due date. The fair value of long-term debts and accounts receivable subject to variable interest is close to their carrying amount. The fair value of debts was estimated by discounting the potential future cash inflows as per prevailing interest rates. Their fair value is attributed to Level 2.
- The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The financial derivatives are accounted for as at fair value by discounting the expected future cash flows at prevailing interest rates. Their fair value is attributed to Level 2.
- The value of cash is attributed to Level 1.

30 Events after the reporting period

After the end of the financial year until the date of approval of these financial statements, no events occurred which would have a material effect on the financial statements or require disclosure.

APPROVED
by the General Shareholder's Meeting on

Annual Statement

1 Company Information

The Annual Statement prepared for the year ended on the 31th December 2017.

	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 St. 47, Vilnius, Lithuania
Telephone	+ 370 5 233 08 19
Fax	+ 370 231 5052
E-mail	vd@degtine.lt
Website	www.degtine.lt

Branch	Obeliai distillery
Branch address	Vienožinskio St. 3, Audronių I village, Rokiškis district, Lithuania
Telephone	+ 370 458 78723
Fax	+ 370 458 78723
E-mail	obeliai@degtine.lt

"Spiritus Vilnensis" is the slogan of the Company with one century's production traditions and actively implemented innovations. It expresses the Company's strategy to develop beverages with every single drop filled with unique and multicultural spirit and secret of Vilnius.

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 the Company, makes alimentary distilled and rectified grain ethyl alcohol. The Company also produces electric and thermal energy. Part of electric energy is sold.

2 Authorised Capital and Securities

The structure of the authorised capital

Type of shares	Number of shares, pcs.	Nominal value in EUR	Total nominal value in EUR	Portion in the authorised capital, %
Ordinary registered shares	24,408,431	0.29	7,078,445	100.00

Ordinary registered shares the Company's authorized capital consist of equal rights granted to all owners of the Company's shares. All shares of the Company 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.

Annual Statement

2 Authorised Capital and Securities (cont'd)

Shareholders who held or managed more than 5 percent of the authorized capital of the issuer as at the 31th December 2017 are as follows:

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, %
Marie Brizard Wine & Spirits Polska ul. Bellottiego 1, 01-022, Warszawa, Poland, 30030460	16,668,632	68.29	68.29
Marie Brizard Wine & Spirits S.A. 27-29, rue de Provence, 75009 Paris, France, 380695213	7,471,703	30.61	30.61

None of the Company's shareholders has 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 25 June 2002, ordinary registered shares of the Company are listed in the Secondary trading list of AB NASDAQ OMX Vilnius. Issuer acronym is VDG1L. During the Extraordinary Shareholders Meeting held on 4th of November 2016 AB Vilniaus Degtinė shareholders decided to delist Company's shares from AB NASDAQ OMX Vilnius additional listing and cancel the public offering of shares of the Company. The Company has signed an agreement with AB Šiaulių Bankas (former AB FMĮ Finasta) on administration of accounting of issued securities.

Securities trading history

Indices	2014 January - December	2015 January - December	2016 January – December	2017 January – December
Opening price, EUR	0.230	0.269	0.321	0.435
Maximum price, EUR	0.289	0.450	0.495	0.520
Minimum price, EUR	0.145	0.200	0.321	0.200
Last session, EUR	0.269	0.335	0.435	0.440
Turnover, pcs.	66,195	125,923	6,130,922	577,186
Turnover, EUR million	0.02	0.04	2.42	0.25
Capitalisation at the end of the period, EUR million	6.57	8.18	10.62	10.74

Source: www.nasdaqbaltic.com/market

In 2017 January-December OTC transactions were not registered. Detailed information on trade of the shares can be found on the securities exchange NASDAQ Baltic.

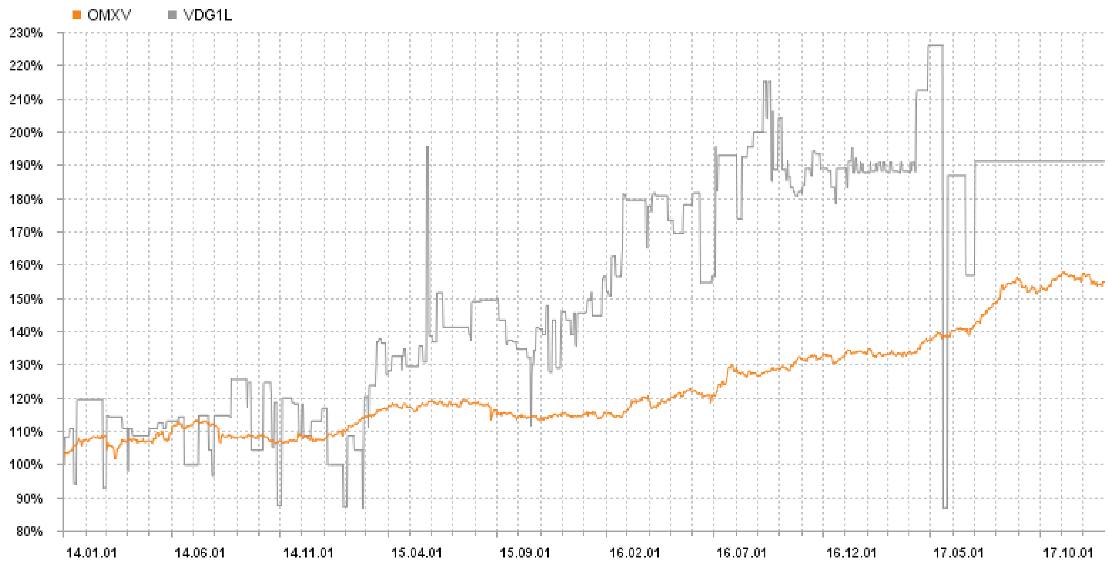
Annual Statement

2 Authorized Capital and Securities (cont'd)

Trade in shares of Vilniaus degtinė AB on NASDAQ Baltic during the period 2014-2017

Source: www.nasdaqbaltic.com/market

Comparison of share prices of Vilniaus degtinė AB (VDG1L) with index OMX Vilnius (OMXV) during the period 2014-2017



Index/Shares	2014.01.01	2017.12.31	+/-%
OMX Vilnius	421.60	653.29	54.95
VDG1L	0.23 EUR	0.44 EUR	91.30

Source: www.nasdaqbaltic.com/market

Annual Statement

3 Company Management

The Company has the general shareholders' meeting, collegial supervisory body − the supervisory board, collegial management body − the board and one-person management body – the head of the Company (Director General). The functions of audit committee are performed by the Company's supervisory board. The Company does not have other committees.

The supervisory board 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 board must be elected, they are elected only for the period before the end of the term of the current supervisory board.

The board of the Company consists of 5 members. Articles of Association of the Company provide for 5 board members. It is elected by the supervisory board for a term of four years. The supervisory board can recall the board in corporate 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. Beside the competence defined in the Law of Companies of the republic of Lithuania, on the basis of the Articles of Association of the Company, the Board passes decisions in relation to the following aspects:

- on branch and representative offices‘ establishment or termination of their operation, and approves assignment of directors;
- on transfer, rent or mortgage of part of its non-current assets as well as on guarantees on fulfilment of other parties duties;
- on non-current assets purchase for the price higher than EUR 57,924;
- on reorganization or liquidation of its affiliates and subsidiaries;
- on loan lending;
- approves the procedure of representation in its affiliates and subsidiaries as well as in other companies, where the Company has its shares;
- makes decisions on the candidatures of authorized persons who shall represent the Company in its affiliates and subsidiaries;
- approves the list of commercial secrets;
- approves the rules on purchasing goods, works, and services.

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.

Control over any possible conflicts of interest that the management bodies of the Company may face is maintained by constantly collecting and exchanging information on the involvement of the Supervisory board, the Board or the head of the Company with other legal entities (participating in the capital or operations of such third parties), evaluating and taking into account the risks posed by such participation.

Over the reporting period, there were no harmful transactions concluded on behalf of the Company or conflicts of interests incurred.

The Shareholders' General Meetings of the Company are convened in accordance with the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company. The decision to convene a Shareholders' General Meeting is made by the Board of the Company.

17 Board meetings, 8 meetings of the Supervisory board, 1 regular Shareholders' General Meeting and 1 irregular Shareholders' General Meeting took place in 2017. On these occasions, an auditing firm was selected and the Financial Statements for 2016 were approved.

Annual Statement

3 Company Management (cont'd)

All member of the Board and the Supervisory board attended all the meetings. The head of the Company, its Chief Financial Officer, Chairman of the Board and Chairman of the Supervisory board attended the Annual General Meeting of Shareholders.

The Articles of Association of the Company are amended in accordance with the Law on Companies of the Republic of Lithuania. The most recent version of the Articles of Association was registered with the Register of Legal Entities of the Republic of Lithuania on the 3th of August 2015.

Members of the collegial supervision, management bodies as at the 2nd of January 2018

Name, surname	Position	Participation in the authorised capital of the issuer, percent	Term
Jean Noel Reynaud	Chairman of Supervisory Board. Director General (Marie Brizard Wine & Spirits S.A. 27-29, rue de Provence, 75009 Paris, France, 380695213)	-	04/2016 – 04/2020
Stephane Laugery	Member of supervisory board. Secretary-General, Legal Director (Marie Brizard Wine & Spirits S.A. 27-29, rue de Provence, 75009 Paris, France, 380695213)	-	04/2016 – 04/2020
Aymeric Donon	Member of Supervisory Board. Finance and Administration Director (Marie Brizard Wine & Spirits S.A. 27-29, rue de Provence, 75009 Paris, France, 380695213)	-	04/2016 – 04/2020
Anna Maria Jakubowski	Chairwoman of the Board. Director General (Marie Brizard Wine & Spirits Polska ul. Bellottiego 1, 01-022, Warszawa, Poland, 230030460)	-	01/2018 – 01/2022
Dovilė Tamoševičienė	Board Member. Financial Director for Central and Eastern Europe (Marie Brizard Wine & Spirits Polska ul. Bellottiego 1, 01-022, Warszawa, Poland, 230030460)	-	12/2015 – 12/2019
Dalius Rutkauskas	Board Member. Export Director	-	12/2015 – 12/2019
Genadij Jurgelevič	Board Member. Production Director for Central and Eastern Europe (Destylarnia Sobieski ul. Skarszewska 1, 83-200, Starogard Gdanski, Poland, 5920202779)	-	12/2015 – 12/2019
Kęstutis Dapkevičius	Board member	-	04/2016 – 04/2020
Raimonda Pilkė	Chief Financial Officer/Acting Director General	-	from 01/07/2016 / 24/07/2017

The members of collegial supervisory and management bodies were not remunerated for their work in the Supervisory board and Board. The Company has not granted any loans or guarantees and has not paid out any dividends to these persons.

In January-December 2017 the job-related payoffs amounting to EUR 68.4 thousand including taxes were calculated for director general and chief accountant. Average a EUR 34.2 thousand for each member. Payoffs non-cash charge amounted to EUR 0.6 thousand. To those individuals the Company has not transferred any property, provided loans or guarantees, or paid dividends.

Annual Statement

3 Company Management (cont'd)

There are no significant agreements the Company is a party thereto 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.

The Company, in pursuance of its duties in accordance with the legal acts governing the securities market, published the information on the essential events in the issuer's activities.

Detailed information in major events can be found on the Company's website www.degtine.lt or the website of NASDAQ Baltic www.nasdaqbaltic.com.

4 Production Activities

The primary business activity of the Company is the manufacture of vodka, scented vodka, bitters, liquors and other alcoholic beverages. The manufacturing process uses purified water and natural ingredients: nuts, berries, fruit juice, honey and herbs. The Company continues to espouse long-standing Lithuanian production traditions, and its products have won multiple awards for their quality and outstanding recipes.

Alcoholic beverages manufactured

Name	Measurement unit	January-December, 2017	January-December, 2016	Change (+,-), percent
Alcoholic beverages	000s litres	10,650.1	13,520.9	-21.24

In 2017 alcoholic beverages production decreased by 21.24 percent if compared to the same time period of the last year. It was driven by a general decline in the market and change in consumer preferences.

The Branch produces distilled and rectified food grade ethyl alcohol from rye and triticale. 9,807.5 thousand litres of absolute alcohol were produced in 2017.

Cogeneration plant, installed in Obeliai Distillery, is powered with biogas to generate electricity and heat using the internal combustion engines. Steam is used in generation process. Excess electric power is sold to AB Energijos Skirstymo Operatorius. This project reduced the costs of energy resources of the Branch as well as environmental pollution. Installed power is 1.5 MW. 9,446.0 MWh of electric power was generated in 2017.

The Company's Management successfully supervises the ISO 9001:2000 management and the LEAN manufacturing control systems. The continued efficiency of supervision, harmonious development of the Company and its competitive advantages are assured. The Company continues to improve the quality and recipes of its manufactured products, make production processes more efficient, decrease production costs and ensure safe working conditions for its staff.

5 Commercial activities

Sales revenue excluding excise duty in 2017 reached EUR 25,030.3 thousand, in 2016 – EUR 22,567.2 thousand. Sales revenue excluding excise duty increased by 10.91 percent, compared to the same time period last year.

Sales in the Lithuanian market made up the largest portion of the Company's sales (65.35 percent). In the EU market sales increased by 9.35 percent, sales to third countries increased by 103.46 percent. Sales to Poland, Latvia, Estonia and France made up the largest portion of the income from the EU market. Sales to Ukraine, Russia and Belarus made up the largest portion of the income from third countries.

Annual Statement

5 Commercial activities (cont'd)

Alcoholic beverages sold

Name	Measurement unit	January-December, 2017	January-December, 2016	Change (+,-), percent
Alcoholic beverages	'000 litres	12,839.7	14,338.9	-10.4

10.4 percent less alcoholic beverages were sold in 2017 than in the same period last year. Vodka made up the largest weighted portion of the sales, that is, 63.16 percent of litres of all alcoholic beverages sold.

The sales performance during January – December 2017 was mainly influenced by general decline in the market. However, due to the launch of new products and change in consumer preferences, AB Vilniaus degtinė sales revenue increased by +10.91% (excl. excise tax). AB Vilniaus degtinė vodka volume market share increased by +2.4 p.p. up to 24.9% vol., when all category volume decreased by -6% (full 2017 vs 2016, AC Nielsen).

Resources and raw materials needed for production are bought at market prices from reliable suppliers in Lithuania and abroad. The suppliers by country are: 70 percent from Lithuania, 11 percent from Poland, 7 percent from France and 12 percent from other countries.

6 Economic-Financial Ratios

The Company's profit amounted to EUR 1,210.0 thousand in January - December 2017 and decreased by 39.58%, compared to the same time period last year (in 2016 – EUR 2,002.7 thousand).

EBITDA of the Company amounted to EUR 3,691.8 thousand in January - December 2017 and decreased by 7.18%, compared to the same time period last year (in January - December 2016 – EUR 3,977.0 thousand). EBITDA margin decreased from 17.62% to 14.75% during the year.

The value of the Company's assets over the year increased by 4.6 percent. Property, plant and equipment decreased by 3.5 percent after starting to use and calculate depreciation for reconstructed biofuel boiler and installed spirits distillation-rectifying line. Intangible assets decreased by 12.5 percent respectively due to amortization. Current assets increased by 20.1 percent following the increase of trade receivables by 38.1 percent. The increase in trade receivables was influenced by increased sales and excise taxes.

Long-term liabilities decreased by 25.3 percent due to decrease in long-term bank credits.

Short-term liabilities increased by 13.4 percent due to increase in excise tax payable.

Annual Statement

6 Economic-Financial Ratios (cont'd)

Economic-financial indices

Indices	January – December 2017 / 31/12/2017	January – December 2016 / 31/12/2016	Change (+,-), percent
Sales revenue (loss), excl. excise tax, EUR	25,030,323	22,567,161	+10.9
EBIT, EUR	1,840,721	2,722,442	-32.4
EBITDA, EUR	3,691,812	3,977,008	-7.2
Profit (loss) before taxes, EUR	1,422,066	2,330,327	-39.0
Profit (loss) of the period, EUR	1,210,046	2,002,652	-39.6
Depreciation, amortization and impairment, EUR	1,851,091	1,254,566	+47.5
Non-current assets, EUR	14,541,478	15,439,134	-5.8
Current assets, EUR	14,145,907	11,980,271	+18.1
Total assets, EUR	28,687,385	27,419,405	+4.6
Share capital, EUR	7,078,445	7,078,445	-
Owner's equity, EUR	16,178,191	14,961,022	+8.1
Non-current liabilities, EUR	3,134,051	4,192,907	-25.3
Current liabilities, EUR	9,375,143	8,265,476	+13.4
Net cash flows from operating activities, EUR	1,333,535	4,597,931	-71.0
Net cash flows from investing activities, EUR	(1,199,928)	(3,248,742)	+63.1
Net cash flows from financing activities, EUR	(1,290,288)	(898,911)	-43.5
Gross profit margin ratio, %	32.28	35.72	-3.4
Operating (net) profit margin ratio, %	4.83	8.87	-4.0
EBIT profit margin ratio, %	7.35	12.06	-4.7
EBITDA profit margin ratio, %	14.75	17.62	-2.9
ROE (return on equity), %	7.77	14.35	-6.6
ROA (return on assets), %	5.37	8.01	-2.6
Quick ratio	1.20	1.15	+4.3
Net working capital turnover ratio	5.900	7.387	-20.1
EPS (earnings per share), EUR	0.05	0.08	-37.5
Debt to equity ratio	0.79	0.83	-4.8

No profits were distributed in the form of dividends in 2016 and 2017.

Annual Statement

7 Risk Factors

Economic Risk Factors

The main risk factors are: large concentration of produced alcohol in the domestic market, competition, the possibility of an increase in excise tax, increasing restrictions on the advertisement and sale of alcohol, and increasing prices of raw materials. As competition increases, attention is focused on and funds are assigned to producing new products and creating brand images, reinforcing positions within the domestic market and developing sales in foreign markets.

The Company did not find it difficult to procure itself with necessary raw materials and materials for production. The supply agreements which were signed ensure supply of materials, raw materials and energy resources. Production sales agreements with buyers are concluded for a period of one calendar year. The intended terms for delay of payments allow to plan and balance the cash flows. Debt handling is performed by employees who are competent and responsible for debt management.

Financial Risk Factors

To secure repayment of bank loans, the Company has pledged some of its assets. Information on pledged assets and financial risk is presented in Note 29 and Note 27 to the annual financial statements. The Company controls and fulfils the bank's requirements on index sizes as well as the additional requirements.

Environmental Risk Factors

The manufacturing process did not have to be restricted or halted due to any harm to the environment. There were no other environmental risk factors or accidents. Environmental pollution decreased by building the new water-heating boiler. Waste water at the Branch is collected and treated at our own biological treatment installations. Secondary raw materials are sorted and handed over for utilization or recycling. Each year, the Company enters into an agreement with a waste management service for the management of the taxed product packaging waste. The Company incurred EUR 440.4 thousand in costs for product packaging waste management in 2017.

Technical –Technological Risk Factors

Since a portion of the Company's technological installations are depreciated, attention will be focused on renewing equipment, developing technological processes and improving production quality in order to eliminate any technical risk factors. After applying the LEAN system maintenance method for installations to the equipment of the bottling department (70 percent of all equipment), said equipment is now being serviced more efficiently.

Social Risk Factors

The availability of qualified workers and competent specialists, capable of satisfying the needs of the Company, remains low in the labour market. There are currently no vacancies within the Company. Wages are being paid on time. All employees have been provided with safe and adequate working conditions.

Information on other risk factors is presented in Note 27 to the annual financial statements.

Annual Statement

8 Employees

Average number of employees

Indices	January-December 2017	January-December 2016
Number of employees	160	160

Average monthly salary of employees

Employees	January-December 2017		January-December 2016	
	Number as at 31/12/2017	Average monthly salary (in EUR)	Number as at 31/12/2016	Average monthly salary (in EUR)
Managers (directors)	4	5,429	4	5,413
Specialists and white-collar workers	60	1,420	67	1,261
Blue-collar workers	93	737	98	625
Total	157	1,041	169	920

In implementing its action strategy and set goals, the Company ensures that its employees receive the best conditions and are paid a competitive wage on time. Wages depend on position, responsibility and the supply and demand of labour within the market. There is a system in place for financially incentivising individual staff members that contribute to the Company's performance. The collective agreement outlines the social guarantees of employees. There are no special rights or duties for Company employees (or a discrete portion thereof) envisioned in either the employment contracts or the collective agreement.

Employee distribution by education

Employees	Number as at 31/12/2017	Number as at 31/12/2016
With higher education	58	60
With post-secondary education	19	20
With higher secondary or vocational secondary education	80	89
Total	157	169

Staff According to Age

Employees	Number as at 31/12/2017	Number as at 31/12/2016
< 25 years old	10	11
25-34 years old	42	39
35-44 years old	33	38
45-54 years old	45	52
55-60 years old	16	17
> 60 years old	11	12
Total	157	169

Annual Statement

8 Employees (cont'd)

Staff According to Gender

Employees	Number as at 31/12/2017	Number as at 31/12/2016
Women	77	84
Men	80	85
Total	157	169

All employees have the opportunity to develop personally and professionally, and to progress with their career regardless of their gender, age or nationality. Employees are constantly raising their qualifications, improving their knowledge of finances, marketing, export and production. They are encouraged to seek any requisite education.

The successful operation of the Company rests on its creative employees, unfazed by responsibility and constantly seeking new forms of productive work together with efficient solutions to problems. They are always sharing their experiences and providing suggestions and ideas to improve performance and working conditions.

In order to create greater value to the customer and to increase its competitive advantage, the Company adopted the LEAN production control system. Staff are certified during training and during further development. Employees are rewarded for implementing ideas that are of economic value to the Company.

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 Environmental 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. Waste and sewage that are 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, regularly carries out control tests. The program of monitoring underground waters of the water body is carried out.

Annual Statement

10 Environmental Protection (cont'd)

Natural gas is used in the technological process of production facilities in Vilnius. 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, cardboard, plastic and etc.) are sorted and delivered to waste management companies.

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

The Company declares all natural water resources used, taxed product packaging, waste and emissions from both mobile and stationary sources of pollution. In 2017, EUR 9.2 thousand were paid for the use of national natural resources (water) and EUR 3.9 thousand – for the environmental pollution caused by mobile and stationary sources of pollution. The Company no longer has a duty to declare waste and emissions from stationary sources of pollution, combustion installations, with a thermal efficiency lower than 20.0 MW.

11 Internal Control and Quality Framework

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, implementing legislation 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.

Production management system LEAN facilitates creating greater value to the client and increase the competitive advantage by using fewer resources. Having eliminated the existing losses, timely execution of orders, better usage of current assets has been ensured, and the employees are involved in constant process of improvement and efficiency increase.

Annual Statement

11 Internal Control and Quality Framework (cont'd)

In 2017, the following LEAN methods and tools were applied in certain parts when managing effective processes: 5S, Kaizen, PDCA, SMED, SD, TPM, Kanban, Asaichi, VACA:

- 5S Visual checks and auditing implemented in 2 workplaces, 5 were updated;
- Kaizen 424 ideas implemented;
- PDCA 2 problems solved;
- SMED 4 new SOI, 1 employee certified;
- SD 10 standardized operations, 10 new projects;
- TPM 3 projects, 1 employee certified;
- Kanban Kanban (min-max projects for reserves) is in force in 156 workplaces, 647 SKU are managed by min-max system in planning program;
- Asaichi 3 employees are trained, 19 meetings are held in accordance with standards;
- VACA 2 processes improved, 11 employees are trained, 2 new SOI, 1 employee certified.

12 Business Plans and Forecasts

The modernisation project of the only Lithuania Obeliai Distillery (branch of AB Vilniaus degtinė) has been finished. During 4 years of this project 10 million EUR were invested. After modernisation distillery is running on renewable energy sources, it is also estimated the production cost to decrease by 25% and up to 30% increase in supply rate from local farmers. Modernisation project will also reinforce its authenticity and ensure raw material supply for production of spirits in AB Vilniaus degtinė with exceptional Lithuanian provenance.

The Company's operational priorities for 2018 are:

- Strengthening of brands on domestic market, investing in the primary brands "Bajorų", "Sobieski", "Renaissance", "Gedimino", "Čepkelių", "Starka";
- Strengthening of MBWS Group brands positions in Lithuanian and Eastern European markets, investing in the primary brands, "William Peel", "Gautier", "Marie Brizard";
- Exceed 26 percent of Lithuanian vodka market and 11 percent of Lithuanian whiskey market;
- Increase and optimize production efficiency.

It is expected that due to the new advertisement restrictions and the restrictions on legal drinking age and the time for selling alcohol drinks, in 2018 Lithuanian alcoholic drinks market will continue to shrink. However, the Company's export development, new products introduction together with the updated brands portfolio will stimulate stable and growing results of the Company.

13 Events after the Reporting Period

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

Acting Director General
Raimonda Pilkė
Vilnius, 24 April 2018

APPROVED
by the General Shareholder's Meeting on

Annex to Annual Statement

Report of AB Vilniaus Degtinė on the compliance with the Corporate Governance Code for the Companies Listed in the stock exchange NASDAQ OMX Vilnius in 2017.

Following Article 21(3) of the Law on Securities of the Republic of Lithuania and paragraph 24.5 of the Listing Rules of the stock company Nasdaq Baltic Vilnius, the stock company Vilniaus Degtinė reveals in this report how it complies with the Corporate Code of Governance approved by the stock company Nasdaq Baltic 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 /NOT APPLICABLE	COMMENT
Principle I: Basic provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize 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 optimize 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. 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, hold joint discussions on particularly important issues in order to find the most optimal solutions ensuring maximum benefit for the Company.
1.4. 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. There is mutually beneficial cooperation with suppliers and clients; terms and provisions of the contracts are strictly followed.

Principle II: The corporate governance framework **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.**		
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: the general meeting of shareholders, the supervisory board, the board and the head of the Company. Regular board meetings and supervisory board meetings, discussion on the most important issues of the Company ensure effective supervision of the 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.	Not applicable	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 supervisory and management 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 departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Company follows this recommendation (the head of the supervisory board and the chairman of the board have never been the head of the Company). The chairman of the supervisory board represents the main shareholder of the Company and is not related with day-to-day operations of the Company.

Principle III: The procedure of the formation of a collegial body to be elected by a general shareholder meeting **The order of the formation a collegial body to be elected by a general shareholder meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholder meeting(hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	Information about the candidates to the members of collegial bodies of the Company is publicly available, but the controlling shareholder can propose the general shareholder meeting to recall members of collegial bodies at its own discretion. Members of collegial bodies do not receive remuneration from the Company's funds. 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.

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 dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholder meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if the supervisory board is a collegial body elected by the general shareholder meeting) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholder meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.	No	The Company does not follow this recommendation of the Governance Code because the members of the supervisory board are employees of the controlling shareholder, of Company's or associated companies.

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 collegial 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.	Not applicable	Members of collegial bodies do not receive any remuneration from the Company’s funds (not including the information provided in Clause 3 Company Management).
Principle IV: The duties and liabilities of a collegial body elected by the general shareholder meeting **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.**		
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 statement of the Company, also carry out other functions within the competence of supervisory board. At the regular meetings of supervisory board and board, the administration of the Company reports about its activities.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company not- pertaining body (institution).	Yes	According to the information available to the Company, all members of collegial bodies act with good will in respect of the Company, considering the interests of the Company rather than those of their own or third parties.

4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of collegial bodies dedicate enough time and attention for resolving Company's issues, take part in all the meetings held by the collegial body.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly, 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 Nomination, and Remuneration Committees are formed in the Company. The functions of the Audit committee are performed by the Company's supervisory board.

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.	Not applicable	The Company does not follow this recommendation because, considering the size and structure of the Company, no Nomination, and Remuneration Committees are formed in the Company. The functions of the Audit committee are performed by the 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 Nomination, and Remuneration Committees are formed in the Company. The functions of the Audit committee are performed by the 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 Nomination, and Remuneration Committees are formed in the Company. The functions of the Audit committee are performed by the 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 Nomination, and Remuneration Committees are formed in the Company. The functions of the Audit committee are performed by the 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. 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.	No	The Company does not follow this recommendation because, considering the size and structure of the Company, no Nomination, and Remuneration Committees are formed in the Company. The functions of the Audit committee are performed by the Company's supervisory board. .

4.13. Remuneration Committee. 4.13.1. Key functions of the Remuneration Committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) 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. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 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); 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. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 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.	No	The Company does not follow this recommendation because, considering the size and structure of the Company, no Nomination, and Remuneration Committees are formed in the Company. The functions of the Audit committee are performed by the Company's supervisory board.

4.14. Audit Committee. 4.14.1. Key functions of the Audit Committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholder meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose enterprises (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.	Yes	The functions of audit committee are performed by the Company's supervisory board.

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Company does not have an established practice of evaluating and informing about the activities of the management bodies.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The Company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	Collegial supervisory and management bodies of the Company are managed by the chairmen of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The procedure of the meetings of the supervisory and management bodies is not strictly defined; when needed, meetings are called on a short notice.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The members of the management bodies are properly notified about the convention of a meeting and supplied with all material necessary for the adoption of the resolutions.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate 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.

Principle VI: The equitable treatment of shareholders and shareholder rights **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.**		
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 opportunity to ask the members of supervisory and management bodies questions on the agenda of the general shareholder meeting and receive answers to them.
6.5. It is recommended that documents on the course of the general shareholder meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholder meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Documents prepared for the general shareholder meeting, including draft resolutions thereof, are announced to the public on the Company's website. All information is presented in Lithuanian and English.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholder meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the Company can participate in the shareholders' meeting both in person and through a proxy, provided the person has been duly authorised. The Company provides the shareholders with the opportunity 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.	Not applicable	Up till now, there was no need to implement this recommendation in the Company.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate 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.**		
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.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company does not prepare reports on salary policy because it is a confidential internal document of the Company. The general information about the salaries paid to the administration members is disclosed and average salary of the Company's employees is specified by categories in the annual statement.
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 administration members during the year is made public every year through the reports.

8.3. Remuneration statement should leastwise include the following information: 1) Explanation of relative importance of variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 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; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	No	The supervisory and management bodies of the Company conclude and approve contracts with the Company's administration heads; the contracts are confidential and not publicly available.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	The supervisory and management bodies of the Company conclude and approve contracts with the Company's administration heads; the contracts are confidential and not publicly available.

8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors’ accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial 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.		
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.	No	The Company does not make the salary policy publicly available because it is treated as confidential information of the Company. The Company does not exercise the policy of using shares as a method of remuneration.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.		
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.		

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.		
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.		
8.11. Termination payments should not be paid if the termination is due to inadequate performance.		
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. 8.13. In case the remuneration is based on awarding shares, the shares should not vest for at least three years after their award. 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. 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). 8.16. Remuneration of non-executive or supervisory directors should not include share options. 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. 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. 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 scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. 8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised;		

4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. 8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval. 8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting. 8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, 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 under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **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.**		
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.		

Principle X: Information disclosure **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.**		
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. 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. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes No No	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.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on NASDAQ OMX Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company presents information through the information system used by Nasdaq Baltic in Lithuanian and in English simultaneously to the extent possible. The Company strictly follows the principle not to disclose the information until such information is made public through the Exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company posts all information intended for the shareholders simultaneously and to the same extent in Lithuanian and in English on the website of the Company, thus ensuring unbiased timely access to the information.

10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company follows these recommendations; it posts all the information specified in the recommendation on its website.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The Company follows this recommendation; annual financial statements and annual statement of the Company are audited by an independent audit company (audit for the year 2017 was carried out by KPMG Baltics, UAB).
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholder meeting.	Yes	The Company follows this recommendation; the audit company is proposed to the general meeting of shareholders by the supervisory board of the Company (upon the proposal of the board). No criteria have been established for the appointment of auditors.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The audit company did not receive any other remuneration from the Company during 2017.