AB VILNIAUS DEGTINĖ

Interim Financial Statements and
Interim Statement for the six-month period ended
30 June 2017
(unaudited)

Contents

Company Information

AB Vilniaus degtinė

Telephone:	+ 370 5 233 08 19
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Company number:	120057287
Registered at:	Panerių Str. 47, Vilnius, Lithuania

Management

Raimonda Pilkė, Acting Director General and CFO

Dalius Rutkauskas, Sales Director for export

Rimas Budreika, Production Director

Board

Juozas Daunys

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

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 unaudited Interim Financial Statements of AB Vilniaus degtinė for the six-month period ended on the 30th June, 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 Interim Statement of AB Vilniaus degtinė for the six-month period ended on the 30th June, 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,
28 September 2017

Statement of Financial Position

As of 30 June

In EUR	Notes	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	12,245,682	12,588,549
Intangible assets	13	2,127,968	2,271,613
Financial assets	15	410,313	578,972
Total non-current assets		**14,783,963**	**15,439,134**
Current assets			
Inventories	16	3,233,559	2,305,019
Prepayment	17	292,366	173,377
Trade receivables	18	6,084,938	7,342,357
Other receivables	12,19	5,745,351	397,998
Cash and cash equivalents	20	3,394	1,761,520
Total current assets		**15,359,608**	**11,980,271**
TOTAL ASSETS		**30,143,571**	**27,419,405**

Notes on pages 11–37 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
28 September 2017

Statement of Financial Position (cont'd)

As of 30 June

In EUR	Notes	2017	2016
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	7,078,445	7,078,445
Legal reserve	21	706,917	706,917
Other reserves		(7,535)	(11,912)
Retained earnings		7,913,432	7,187,572
Total equity		**15,691,259**	**14,961,022**
Non-current liabilities			
Interest bearing loans and borrowings	23	1,809,098	2,060,431
Governmental grants	24	1,753,366	1,869,314
Deferred tax liability	11	256,145	263,162
Total non-current liabilities		**3,818,609**	**4,192,907**
Current liabilities			
Interest bearing loans and borrowings	23	6,256,158	1,119,492
Trade payables		2,324,469	2,681,538
Income tax payables	25	137,514	297,486
Other payables	25	1,915,562	4,166,960
Total current liabilities		**10,633,703**	**8,265,476**
Total liabilities		**14,508,044**	**12,458,383**
TOTAL EQUITY AND LIABILITIES		**30,143,571**	**27,419,405**

Notes on pages 11–37 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
28 September 2017

Comprehensive Income Statement

For the period ended 30 June

In EUR	Notes	Jan-Jun 2017	Jan-Jun 2016
Sales revenue	4	**33,228,154**	**29,696,869**
Excise duty		(21,503,659)	(19,191,432)
Sales revenue excluding excise duty		**11,724,495**	**10,505,437**
Cost of sales		(7,616,259)	(6,738,659)
Gross profit	4	**4,108,236**	**3,766,778**
Other income	4	175,636	149,589
Sales and distribution expenses	6	(1,200,761)	(1,268,654)
Administrative expenses	7	(2,063,960)	(1,656,188)
Other expenses	5	(3,617)	(3,014)
Result from operating activities		**1,015,534**	**988,511**
Financial income	9	9,216	48,868
Financial expenses	9	(173,111)	(89,204)
Profit (loss) before tax		**851,639**	**948,175**
Income tax	10	(125,779)	(69,188)
Profit (loss) for the period		**725,860**	**878,987**
Basic and diluted earnings per share	22	0.03	0.04

Notes on pages 11–37 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
28 September 2017

Comprehensive Income Statement (cont'd)

For the period ended 30 June

In EUR	Notes	Jan-Jun 2017	Jan-Jun 2016
Profit (loss) for the period		**725,860**	**878,987**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Fair value losses arising during the year		(149)	(11,008)
Reclassif. adjustments for amounts recognised in profit or loss		5,298	4,317
		5,149	(6,691)
Income tax relating to items that may be reclassified subsequently to profit or loss		(772)	1,004
Other comprehensive income, net of income tax		4,377	(5,687)
TOTAL COMPREHENSIVE INCOME (EXPENSES)		**730,237**	**873,300**

Notes on pages 11–37 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
28 September 2017

Statement of Changes in Equity

For the period ended 30 June

In EUR	Notes	Share capital	Legal reserve	Cash flow hedging reserve	Retained earnings	Total shareholders' equity
Capital and reserves as on 1 January 2016		**7,069,170**	**706,917**	**(13,363)**	**5,184,921**	**12,956,920**
Profit (loss) for January-June of 2016		-	-	-	878,987	878,987
Other comprehensive income, net of income tax		-	-	(5,687)	-	(5,687)
Total comprehensive income for January-June of 2016		-	-	(5,687)	878,987	873,300
Capital and reserves as on 30 June 2016		**7,078,445**	**706,917**	**(19,050)**	**6,063,908**	**13,830,220**
Capital and reserves as on 1 January 2017		**7,078,445**	**706,917**	**(11,912)**	**7,187,572**	**14,961,022**
Profit (loss) for January-June of 2017		-	-	-	725,860	725,860
Other comprehensive income, net of income tax		-	-	4,377	-	4,377
Total comprehensive income for January-June of 2017		-	-	4,377	725,860	730,237
Capital and reserves as on 30 June 2017	21	**7,078,445**	**706,917**	**(7,535)**	**7,913,432**	**15,691,259**

Notes on pages 11–37 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
28 September 2017

Cash Flows Statement

For the period ended 30 June

In EUR	Notes	Jan-Jun 2017	Jan-Jun 2016
Profit (loss) for the period		725,860	878,988
Depreciation and amortization	13, 14	888,827	520,695
Impairment of trade receivables and other receivables	18, 19	(353)	(575)
Net financial expenses	9	163,895	40,336
Gain (loss) on disposal of non-current assets		(18,413)	(1,739)
Income tax expenses		125,779	69,188
Net cash flows from ordinary activities before changes in working capital		1,885,595	1,506,893
Change in inventories		(928,540)	31,295
Change in prepayments		(118,989)	3,887
Change in trade receivables and other receivables		(4,018,346)	2,432,033
Change in trade payables and other payables		(2,458,127)	(2,242,000)
Net cash flows from operating activities		(7,524,003)	225,215
Income tax paid	12	(356,742)	(129,369)
Net cash flows from operating activities		**(5,995,150)**	**1,602,739**
Interest received		1,846	26,695
Proceeds from disposal of non-current assets	5	64,200	1,740
Acquisition of property, plant and equipment	14	(516,854)	(1,372,810)
Acquisition of intangible non-current assets	13	(18,631)	(10,745)
Disposal of investments		0	1,448
Loans received		167,607	197,607
Net cash flows from investing activities		**(301,833)**	**(1,156,065)**
Repayment of loans		(484,187)	(384,838)
Loans received	23	211,748	458,600
Change of overdraft	23	5,050,687	(1,219,621)
Financial lease payments		(66,669)	(29,643)
Interest paid	9	(157,539)	(77,621)
Net other financing activities	9	(15,182)	(9,674)
Net cash flows from financing activities		**4,538,857**	**(1,262,797)**
Net cash flows from operating, investing and financing activities		**(1,758,126)**	**(816,123)**
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		**3,394**	**495,119**

Notes on pages 11–37 are an integral part of these financial statements.

Acting Director General and CFO
Raimonda Pilkė

Vilnius,
28 September 2017

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 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 CompanyAB Vilniaus Degtinė.

As on the 30th of June 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 with the subsidiary of the Company in Rokiškis district.

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

The Company employed 163 staff members as on the 30th of June 2017 (172 staff members as on the 30th of June 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. They are prepared on the historical basis.

Notes

2 Summary of significant accounting principles (cont'd)

Basis of preparation (cont'd)

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.

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 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 balance sheet 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 no longer recognizes the financial assets when the contractual rights to the cash flows from this asset has expired or when the right to receive the agreed cash flows from this financial asset has been transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets has been transferred. Financial liability is no longer recognized when it has been 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 (con't)

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.

Property, plant and equipment

Recognition and measurement

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

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

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

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 financial leases. Assets acquired by way of financial lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. All other lease is treated as operational lease.

Inventories

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

The costs of inventories is determines based on FIFO principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity distributed according to norms calculated considering the use of production capacities.

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

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

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

Governmental grants

Grants are accounted following the principle of accumulation, i.e. received grants or parts thereof are 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.

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 balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

An impairment loss is 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. The Company pays contributions to the pension fund for the Company's management (directors).

Provisions

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

Revenue

Sales of goods

Revenue from the sale of goods is 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, excise tax 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.

Financial lease payments

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

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 financial 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax asset is 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 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.

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 recogninision

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

Notes

4 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.). 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-June 2017

In EUR	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Revenue	26,068,316	1,791,474	224,359	5,144,005	33,228,154
Excise duty	*(18,820,680)*	*(80,457)*	-	*(2,602,522)*	*(21,503,659)*
Revenue excluding excise duty	7,247,636	1,711,017	224,359	2,541,483	11,724,495
Gross profit	3,171,080	57,879	38,531	840,746	4,108,236

Revenue and gross profit for January-June 2016

In EUR	Finished alcoholic beverages	Ethyl alcohol and its products	Denatured ethyl alcohol	Goods for resale	Total
Revenue	26,364,195	1,253,158	475,088	1,604,428	29,696,869
Excise duty	*(18,553,119)*	*(70,687)*	-	*(567,626)*	*(19,191,432)*
Revenue excluding excise duty	7,811,076	1,182,471	475,088	1,036,802	10,505,437
Gross profit	3,220,647	185,354	77,337	283,440	3,766,778

Products are being sold in both the Lithuanian and EU markets, with exports being made to third countries. The sales of alcoholic beverages manufactured by the Company grew by 25.5 percent in the markets of the EU and 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-Jun 2017		Jan-Jun 2016	
In EUR	Revenue excluding excise duty	Gross profit	Revenue excluding excise duty	Gross profit
Lithuania	7,879,124	3,596,177	7,677,972	3,042,092
Other EU Countries	2,779,747	264,059	2,235,076	480,128
Third Countries	1,065,624	248,000	592,389	244,558
Total	11,724,495	4,108,236	10,505,437	3,766,778

Notes

In EUR	Jan-Jun 2017	Jan-Jun 2016
5 Income and expenses of other activities		
Lease of premises and utilities	17,915	18,635
Gain from sales of intangible assets	18,413	1,739
Gain from sales of materials and spare parts	36,216	25,354
Electricity sales profit	79,725	81,696
Transportation	9,800	10,169
Indemnification	1,538	3,101
Other income	12,029	8,895
Total other income	175,636	149,589
Other expenses	(3,617)	(3,014)
Loss from sales of intangible assets	0	0
Loss from sales of electricity	0	0
Loss from sales of materials and spare parts	0	0
Total other expenses	(3,617)	(3,014)
Net income and expenses of other activities	**172,019**	**146,575**

In EUR	Jan-Jun 2017	Jan-Jun 2016
6 Sales and distribution expenses		
Advertising expenses	(704,269)	(856,396)
Personnel expenses	(253,254)	(201,225)
Transportation expenses	(161,740)	(140,766)
Market research expenses	(8,134)	(9,950)
Packaging expenses	(8,071)	(12,771)
Other expenses	(65,293)	(47,546)
Total sales and distribution expenses	**(1,200,761)**	**(1,268,654)**

Notes

In EUR	Jan-Jun 2017	Jan-Jun 2016
7 Administrative expenses		
Personnel expenses	(623,943)	(495,695)
Operating taxes	(294,589)	(258,202)
Repairs and maintenance	(57,643)	(43,276)
Amortization and depreciation	(306,940)	(271,105)
Consulting and training expenses	(178,545)	(200,335)
Maintenance of cargo vehicles	(86,799)	(55,924)
Security expenses	(38,927)	(40,100)
Communications and IT maintenance expenses	(24,945)	(29,128)
Utilities	(45,910)	(41,020)
Impairment allowance of debts	353	576
Other expenses	(406,072)	(221,979)
Total administrative expenses	**(2,063,960)**	**(1,656,188)**

In EUR	Jan-Jun 2017	Jan-Jun 2016
8 Personnel expenses		
Wages and salaries	(825,431)	(684,852)
Vacation reserve	(96,145)	(69,716)
Guarantee fund contributions	(20)	(1,514)
Social security contributions	(288,626)	(233,786)
Total personnel expenses	**(1,210,222)**	**(989,868)**

Total personnel expenses in January-June 2017 amounted to EUR 1,210,222, of which: (a) administrative EUR 623,943; (b) sales and distribution EUR 253,254; (c) direct labor EUR 333,025 (in January-June 2016 – EUR 989,868, of which: (a) administrative EUR 495,695; (b) sales and distribution EUR 201,225; (c) direct labor EUR 292,949).

Redundancy pays for January-June 2017, inclusive of social security contributions and guarantee fund contributions, amounted to EUR 0 (in January-June 2016 – EUR 10,456).

Personnel expenses for the key management personnel (directors) in January-June 2017 amounted to EUR 143,281, of which: (a) short-term employee benefits EUR 143,281; (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-June 2016 – EUR 103,816, of which: (a) short-term employee benefits EUR 103,816; (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 for details to Note 27.

Average number of employees for January-June 2017 was 165 (161 for January-June 2016).

Average number of managers (directors) for January-June 2017 was 4 (4 for January-June 2016).

Notes

In EUR	Jan-Jun 2017	Jan-Jun 2016
9 Financial income and expenses		
Interest income	8,826	46,959
Foreign exchange gain	390	1,909
Total financial income	9,216	48,868
Interest expenses	(157,539)	(77,621)
Foreign exchange loss	(6,477)	(8,461)
Other expenses	(9,095)	(3,122)
Total financial expenses	(173,111)	(89,204)
Financial income and expenses, net	**(163,895)**	**(40,336)**

In EUR	Jan-Jun 2017	Jan-Jun 2016
10 Corporate income tax expenses		
Current income tax for the period	(133,568)	(89,174)
Change in deferred income tax	7,789	19,986
Total corporate income tax expenses	**(125,779)**	**(69,188)**

Notes

11 Deferred tax

In EUR	30/06/2017 Temporary differences	30/06/2017 Deferred tax (15%)	31/12/2016 Temporary differences	31/12/2016 Deferred tax (15%)
Impairment of trade receivables	107,820	16,173	107,820	16,173
Impairment of construction in progress	373,435	56,015	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	34,326	5,149	43,437	6,515
Accrued expenses	2,180	327	2,180	327
Cash flow hedge reserve	8,865	1,330	14,014	2,102
Total deferred tax asset		**189,347**		**189,411**
Difference in depreciation of property, plant and equipment	991,652	148,747	899,588	134,938
Difference in amortization of intangible assets	1,962,871	294,430	2,099,815	314,972
Carrying value of non-current assets that are subject to investment relief	15,431	2,315	17,751	2,663
Total deferred tax liability		**445,492**		**452,573**
Deferred tax		**(256,145)**		**(263,162)**

In EUR	Jan-Jun 2017	Jan-Jun 2016
Change in the deferred tax		
Deferred tax liability at the beginning of the period	(263,162)	(289,147)
Deferred tax expenses	7,789	19,986
Deferred income tax relating to cash flow hedge	(772)	1,004
Deferred tax liability at the end of the period	**(256,145)**	**(268,157)**

12 Corporate income tax

In EUR	Jan-Jun 2017	Jan-Jun 2016
Overpaid corpor. income tax (liability) at the beginning of the period	(297,486)	(110,237)
Income tax paid during the period	293,540	110,237
Current income tax for the period	(133,568)	(89,174)
Overpaid corpor. income tax (liability) at the end of the period	**(137,514)**	**(89,174)**

Notes

13 Intangible assets

In EUR	Trademarks	Software	Other	Total
Cost as of 1 January 2016	5,484,400	228,240	13,270	5,725,910
Additions	0	5,091	5,654	10,745
Write-off	0	0	0	0
Cost as of 30 June 2016	5,484,400	233,331	18,924	5,736,655
Accumulated amortization as of 1 January 2016	3,104,074	89,175	13,270	3,206,519
Amortization	138,048	21,008	0	159,056
Write-off	0	0	0	0
Accumulated amortization as of 30 June 2016	3,242,122	110,183	13,270	3,365,575
Net book value as of 30 June 2016	**2,242,278**	**123,148**	**5,654**	**2,371,081**
Cost as of 1 January 2017	5,488,665	226,100	54,252	5,769,017
Additions	0	13,751	4,880	18,631
Write-off	0	0	0	0
Reclassifications	(4,265)	5,654	(1,389)	0
Cost as of 30 June 2017	5,484,400	245,505	57,743	5,787,648
Accumulated amortization as of 1 January 2017	3,379,618	101,690	16,096	3,497,404
Amortization	137,950	21,547	2,780	162,276
Write-off	0	0	0	0
Reclassifications	(178)	0	178	0
Accumulated amortizat. as of 30 June 2017	3,517,390	123,237	19,054	3,659,680
Net book value as of 30 June 2017	**1,967,010**	**122,268**	**38,689**	**2,127,968**

All amortization expenses are included under administrative expenses.

Notes

14 Property, plant and equipment

In EUR	Land and buildings	Machinery and equipment	Vehicles and other assets	Other equipment	Construction in progress	Other	Total
Cost as of 1 January 2016	11,014,362	6,821,475	460,225	520,717	2,079,427	950,854	21,847,060
Additions	0	295,414	105,324	12,389	910,097	148,951	1,472,175
Write-off and sale of	0	(2,203)	(43,471)	0	0	0	(45,674)
Reclassifications	147,892	45,587	0	0	757,375	(950,854)	0
Cost as of the 30 June 2016	11,162,254	7,160,273	522,078	533,106	3,746,899	148,951	23,273,561
Accumulated impairment of 1 January 2016	825,128	0	0	0	0	0	825,128
Loss of impairment							
Accumulated impairment of 30 June 2016	825,128	0	0	0	0	0	825,128
Accumulated depreciation as of 1 January 2016	4,357,951	5,459,715	347,559	480,843	0	0	10,646,068
Write-off and sale of	0	(2,202)	(43,471)	0	0	0	(45,673)
Depreciation	168,540	161,675	21,548	9,876	0	0	361,639
Depreciation (grants)	48,855	67,093	0	0	0	0	115,948
Accumulated depreciation as of 30 June 2016	4,575,346	5,686,281	325,636	490,719	0	0	11,077,982
Net book value as of 30 June 2016	**5,761,780**	**1,473,992**	**196,442**	**42,387**	**3,746,899**	**148,951**	**11,370,452**
Cost as of 1 January 2017	11,770,767	10,906,278	728,945	562,553	1,148,501	0	25,117,044
Additions	5,380	225,980	74,975	10,807	201,783	26,492	545,417
Write-off and sale of	(106,454)	(2,793)	(34,874)	(930)	0	0	(145,051)
Reclassifications	0	4,891	0	0	(4,891)	0	0
Cost as of 30 June 2017	11,669,693	11,134,356	769,046	572,430	1,345,393	26,492	25,517,410
Accumulated impairment of 1 January 2017	825,128	0	0	0	0	0	825,128
Accumulated impairment of 30 June 2017	825,128	0	0	0	0	0	825,128
Accumulated depreciation as of 1 January 2017	4,804,769	6,067,513	357,333	473,753	0	0	11,703,368
Write-off and sale of	(60,668)	(2,793)	(34,874)	(930)	0	0	(99,265)
Depreciation	185,471	471,715	51,914	17,450	0	0	726,550
Depreciation (grants)	48,855	67,093	0	0	0	0	115,948
Accumulated depreciation as of 30 June 2017	4,978,427	6,603,528	374,373	490,273	0	0	12,446,600
Net book value as of 30 June 2017	**5,866,138**	**4,530,828**	**394,673**	**82,157**	**1,345,393**	**26,492**	**12,245,682**

Notes

14 Property, plant and equipment (cont'd)

Construction in progress additions amounted EUR 196,892 in 2017 and is investment into reconstruction of Bio-fuel boiler and installation of distillation-rectifying line for ethyl alcohol.

In EUR	Jan-Jun 2017	Jan-Jun 2016
Split of depreciation costs		
Cost of sales	521,244	227,829
Inventories	57,026	18,747
Administrative and other expenses	148,280	115,063
Total depreciation cost	**726,550**	**361,639**

15 Financial assets

In EUR	30/06/2017	31/12/2016
Long-term loans granted to related party	410,213	577,820
Interest receivable	100	1,152
Total financial assets	**410,313**	**578,972**

Loans were issued to related party (Note 27) in euros. 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 installments and have a variable interest rate.

16 Inventories

In EUR	30/06/2017	31/12/2016
Raw materials	1,052,177	1,401,341
Finished goods	781,703	571,687
Goods for resale	1,426,287	339,601
Work in progress	22,257	41,255
Raw materials impairment	(48,865)	(48,865)
Total inventories	**3,233,559**	**2,305,019**

The cost of inventories recognised as an expense during the January-June 2017 in respect of continuing operation was EUR 7,668.9 thousand (January-June 2016 EUR 6,757.8 thousand).

Notes

17 Prepayments and deferred expenses

In EUR	30/06/2017	31/12/2016
Prepayments to suppliers	60,741	67,633
Deferred advertising expenses	41,634	38,436
Other prepaid expenses	189,991	67,308
Total prepayments and deferred expenses	**292,366**	**173,377**

18 Trade receivables

In EUR	30/06/2017	31/12/2016
Trade receivables	4,337,492	5,224,108
Impairment allowance	(107,820)	(107,820)
Trade receivables from related parties	1,855,266	2,226,069
Impairment allowance from related parties	0	0
Total trade receivables, net	**6,084,938**	**7,342,357**

Change in impairment of receivables for bad debts

In EUR	30/06/2017	31/12/2016
Impairment allowance at the beginning of the period	(107,820)	(101,547)
Charge for the year	(0)	(6,623)
Reverse of impairment allowance	0	350
Impairment allowance for bad debts at the end of the period	**(107,820)**	**(107,820)**

19 Other receivables

In EUR	30/06/2017	31/12/2016
Interest receivable	25,718	17,685
Short-term loans granted to related party	362,607	362,607
Tax paid in advance	4,914,106	2,592
Other receivables	582,191	154,738
Total other receivables before write-down allowance	**5,884,622**	**537,622**
Impairment allowance	(139,271)	(139,624)
Total other receivables, net	**5,745,351**	**397,998**

Change in impairment allowance of receivables

In EUR	30/06/2017	31/12/2016
Impairment allow.for receivables at the beginning of the period	**(139,624)**	**(140,203)**
Reverse of impairment allowance	353	579
Impairment allowance for receivables at the end of the period	**(193,271)**	**(139,624)**

Notes

In EUR	30/06/2017	31/12/2016
20 Cash and cash equivalents		
Cash at bank	3,394	1,761,520
Total cash and cash equivalents	**3,394**	**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, fully paid. The holders of the ordinary shares are entitled to one vote per share in the shareholders' meeting and are entitled to dividends as they are declared and to capital repayment in case of reduction of capital. One ordinary share gives a right to one vote at the shareholders' meeting.

Legal reserve

Legal reserve is compulsory reserve under Lithuanian legislation. Annual contributions of at least 5 percent of the retained earnings available for distribution are required until legal reserve and the share premium reach 10 percent of the authorised capital. This reserve cannot be distributed.

22 Basic and diluted earnings (loss) per share

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

	Jan-Jun 2017	Jan-Jun 2016
Number of shares	24,408,431	24,408,431
Profit (loss) for the period attributable to the equity holders, in EUR	725,860	878,987
Basic and diluted earnings (loss) per share, in EUR	**0.03**	**0.04**

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	30/06/2017	31/12/2016
23 Interest bearing loans and borrowings		
Non-current liabilities		
Bank loans	1,504,419	1,826,530
Derivative, interest rate SWAP	8,865	14,014
Financial lease (leasing) liabilities	295,814	219,887
Total non-current liabilities	**1,809,098**	**2,060,431**
Current liabilities		
Bank overdraft, factoring	5,050,686	0
Bank loans	1,067,721	1,018,047
Financial lease (leasing)	137,751	101,445
Total current liabilities	**6,256,158**	**1,119,492**
Total	**8,065,256**	**3,179,923**

In EUR	Total	Up to 1 year	1-5 years	Over 5 years
Schedule of repayment (interest)				
Bank overdraft (EURIBOR 3 mon.+margin)	5,050,686	5,050,686	0	0
Bank loans (EURIBOR 3 mon.+margin)	2,572,140	1,067,721	1,504,419	0
Derivative, interest rate SWAP (EURIBOR 3 mon.)	8,865	0	8,865	0
Financial lease (EURIBOR 6 mon., EURIBOR 3 mon.+margin)	433,565	137,751	295,814	0
Total financial liabilities	**8,065,256**	**6,256,158**	**1,809,098**	**0**

The due date of repayment of long-term bank credits is September 2020. Line of credit agreement of the bank was prolonged until September 2018. Factoring limit agreement of the bank was also prolonged until October 2017. In order to secure the bank loans, the Company has pledged its assets. For further comments refer to Note 28.

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

In EUR	30/06/2017	31/12/2016
24 Governmental grants		
Balance value at the beginning of the period	1,869,314	2,101,211
Grants received	0	0
Amortization	(115,948)	(231,897)
Balance value at the end of the period	**1,753,366**	**1,869,314**

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

Notes

In EUR	30/06/2017	31/12/2016
25 Other payables		
Payable excise tax	577,443	2,822,473
Payable VAT	900,911	991,950
Wages, vacation reserve and social security	309,319	253,003
Other taxes payable	11,801	43,089
Accrued expenses	21,932	32,270
Other payables	94,156	24,175
Total other payables	**1,915,562**	**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 for information on each of the aforementioned risks the Company faces, the Company's risk evaluation goals, policy and risk valuation and management processes, as well as the Company's capital management. More detailed quantitative disclosures are presented in the present 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 if a customer or another party fails to fulfil their respective obligations, and in most cases such risk is related with amounts receivable from the Company's customers.

The Company controls credit risk or risk by using credit conditions and procedures of market analysis. The Company is responsible for managing and analyzing 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 the shareholders of the 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 balance sheet vary from 10-15 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. All Credit risk management is documented in the credit management procedure.

Notes

26 Financial risk management (cont'd)

Credit risk (cont'd)

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 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 has issued the guarantee to its related parties, which are as follows: (1) repayments of financial liabilities (overdraft) for the related party "Prekyba alkoholiniais gėrimais" UAB, which was equal to EUR 0 as of 30 June 2017. As of 30 June 2017 and the date of these financial statement, there were no implication about 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 maximally secure sufficient liquidity of the Company, which enables the Company to fulfil its obligations under both, normal and complicated circumstances, without suffering unacceptable losses and being exposed to the risk of loosing its good reputation.

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.

The Company's policy is to maintain sufficient cash to cover planned operating expenditure, including financial liabilities; such security does not cover the influence unforecastable force majeure (such as natural calamities). Moreover, the Company has concluded a contract for bank overdraft, which undrawn amount was equal to EUR 2,249 thousand as of 30 June 2017.

Market risk

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

Interest rate risk

As at 30 June 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 has been 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. Outstanding loan principal amount and SWAP notional amount is EUR 1,603 thousand.

Notes

26 Financial risk management (cont'd)

Foreign exchange risk

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

Notes

27 Related party transactions (cont'd)

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
„Vinimpex" PLC	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
PHP Wieslav Wawrzyniak	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&Roger Inten.	Marie Brizard Wine & Spirits group company
Marie Brizard Espagne	Marie Brizard Wine & Spirits group company
Chais Beaucairois SAS	Marie Brizard Wine & Spirits group company
Domain Menada Sp. Z o.o.	Marie Brizard Wine & Spirits group company
MBWS Distribution SIA	Marie Brizard Wine & Spirits group company
UAB „Business decisions group"	Company related to shareholders
Natural persons	Shareholders, Board members, Management members (directors)

Purchases from and sales to related parties

In EUR	Type of transaction	Jan-Jun 2017	Jan-Jun 2016
Purchases from:			
Ultimate parent company	Services	195,114	0
Marie Brizard Wine & Spirits group companies	Inventories	2,160,306	613,403
Marie Brizard Wine & Spirits group companies	Services	53,088	58,920
Other	Services	0	3,459
Total purchases		**2,408,508**	**675,782**
Sales to:			
Ultimate parent company	Interest	793	24,147
Ultimate parent company	Services	24,064	0
Marie Brizard Wine & Spirits group companies	Inventories incl.excise tax	7,884,106	6,517,771
Marie Brizard Wine & Spirits group companies	Services	69,267	60,761
Marie Brizard Wine & Spirits group companies	Interest	8,033	8,368
Total sales		**7,986,263**	**6,611,047**
Excise tax		(4,808,470)	(4,208,849)
Total sales net of excise tax		**3,177,793**	**2,402,198**

Notes

27 Related party transactions (cont'd)

Balances outstanding with related parties	30/06/2017	31/12/2016
Trade receivables from:		
Ultimate parent company	514,922	716,352
Marie Brizard Wine & Spirits group companies	2,138,982	2,468,981
Total trade receivables	**2,653,904**	**3,185,333**
Impairment allowance from comp. from the group	0	0
Trade receivables, net	**2,653,904**	**3,185,333**
Trade payables to:		
Ultimate parent company	98,215	251,411
Parent company	0	10,260
Marie Brizard Wine & Spirits group companies	556,249	225,550
Total trade payables	**654,464**	**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 in 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) is enclosed in the Note 8.

28 Off-balance liabilities

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

In EUR	30/06/2017	31/12/2016
Pledged buildings and structures	1,274,441	1,407,156
Pledged equipments	4,612,984	4,927,564
Pledged trademark	1,962,871	2,099,815
Pledged inventories	3,233,559	2,305,019
Cash and cash equivalents in accounts of bank (transferred)	3,394	1,761,520
Amounts receivable from buyers (transferred the rights of claims)	6,084,938	7,342,357
Rights of land lease	-	-

Value of pledged assets in this table is equal to the value of financial statements.

Notes

28 Off-balance liabilities (cont'd)

Based on the terms of the loan and overdraft agreements, the Company has to comply with certain financial and non-financial covenants. As at 30 June 2017 and 2016 the Company complied with all the debt covenants.

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 favorable for an asset or a liability.

Primary or the most favorable 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 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.

All assets and liabilities, the fair value whereof is measured or disclosed in the financial statement, are categorized according to the following the 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 for the asset or liability, either directly or indirectly, 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 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 means.

Notes

29 Fair value of financial instruments (cont'd)

- 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.

30 Events after the reporting period

After the end of the six-month financial period until the date of preparation of these financial statements, no events occurred which would have a material effect on the financial statements or require disclosure.

Interim Statement

1 Company Information

The Annual Statement prepared for the year ended on the 31th December 2015 has been audited.

	Public stock company Vilniaus Degtinė (hereinafter – the Company)
Legal form	Public stock company
Date and place of registration	23rd of November 1990, Vilnius branch of the State Enterprise Centre of Registers
Code	120057287
Registered office address	Panerių Str. 47, 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 Str.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 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.

Interim 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 of the 30th June 2017

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, 230030460	16,668,632	68.29	68.29
Marie Brizard Wine & Spirits S.A. 40 Quai Jean Compagnon Et 19 Bld Vaillant Couturie	7,471,703	30.61	30.61

None of the Company's shareholders has any special rights of control.

There are no restrictions of the rights to vote. There are no agreements between the shareholders, which might cause the transfer of securities and (or) right of vote to be restricted.

Since the 25 June 2002, ordinary registered shares of the Company are listed in the Secondary trading list of AB NASDAQ OMX Vilnius. Emitent 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 – June
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	576,976
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

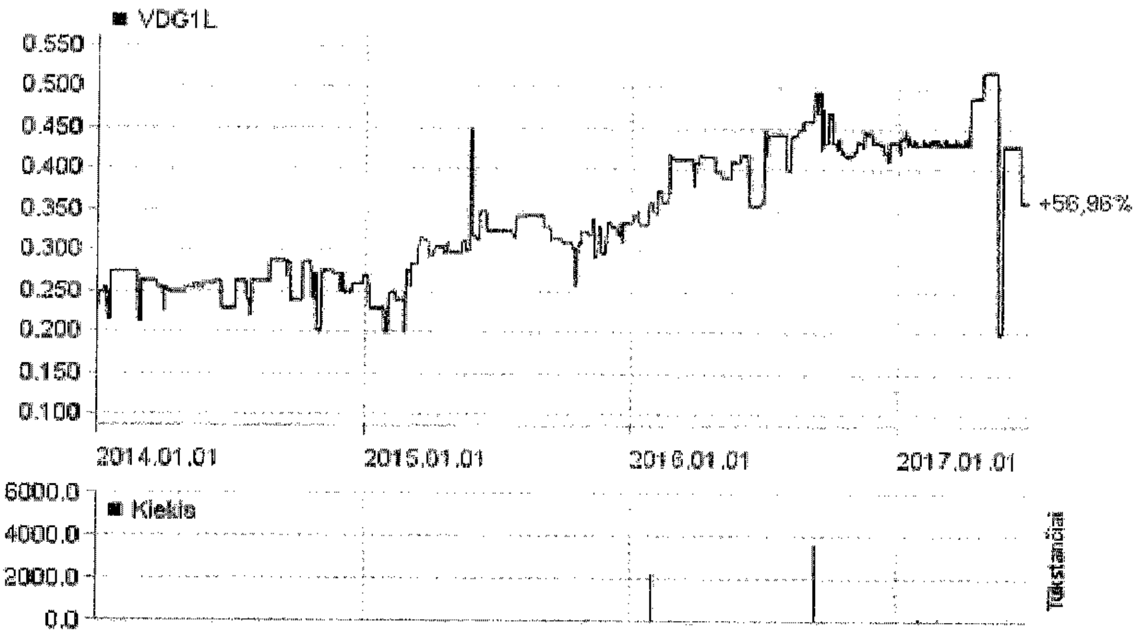
Source: www.nasdaqomxbaltic.com/market

The following transactions were registered in January-June 2017: one over-the-counter (OTC) transaction in the amount to EUR 1,513.7 thousand (3,500 units of shares), five OTC non-monetary transactions (5,697 units of shares) (source: http://www.csdl.lt/lt/aktualijos/statistika/uzbsanda.php). Detailed information on trade of the shares can be found on the securities exchange NASDAQ OMX Vilnius.

Interim Statement

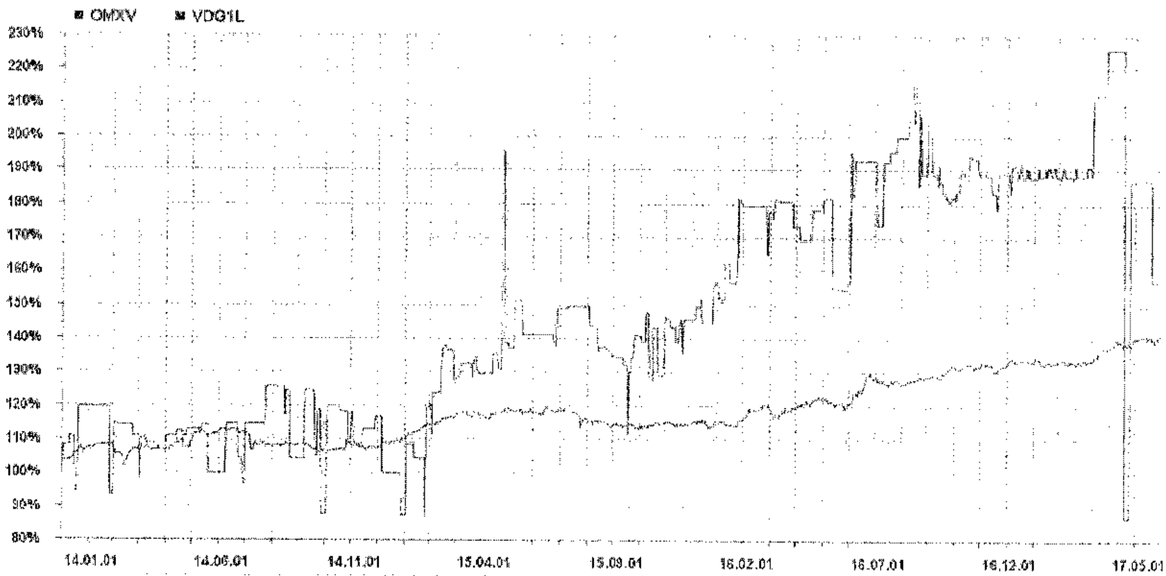
2 Authorized Capital and Securities (cont'd)

Trade in shares of Vilniaus degtinė AB on NASDAQ OMX Vilnius during the period 2014–2017



Source: www.nasdaqomxbaltic.com/market

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



Indeksas/Akcijos	2014.01.01	2017.06.30	+/-%
OMX Vilnius	421.60	597.07	41.62
VDG1L	0.230 EUR	0.361 EUR	56.96

Source: www.nasdaqomxbaltic.com/market

Interim Statement

3 Company Management

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

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

The board of the Company consists of 5 members. Articles of Association of the Company provide for 5 board members. It is elected by the supervisory council for a term of four years. The supervisory council 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 fulfillment 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 Council, 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.

11 Board meetings, 7 meetings of the Supervisory Council and 1 regular Shareholders' General Meeting took place in 2017. On these occasions, an auditing firm was selected and the Financial Statements for 2016 were approved.

Interim Statement

3 Company Management (cont'd)

The head of the Company, its Chief Financial Officer, Chairman of the Board and Chairman of the Supervisory council all attended the regular Shareholders' General Meeting.

Articles of Association of the Company are amended in accordance with the Company Law of the Republic of Lithuania. The most recent working of the articles of association was registered at the Register of Legal Entities of the Republic of Lithuania on the 03th of August 2015.

Members of the collegial supervision, management bodies as on the 30th of June 2017

Name, surname	Position	Participation in the authorised capital of the issuer, percent	Term
Jean Noel Reynaud	Chairman of supervisory council	-	04/2016 – 04/2020
Stephane Laugery	Member of supervisory council	-	04/2016 – 04/2020
Aymeric Donon	Member of supervisory council	-	04/2016 – 04/2020
Juozas Daunys	Chairman of the Board	-	04/2016 – 04/2020
Dovilė Tamoševičienė	Board member, Director General	-	12/2015 – 12/2019
Dalius Rutkauskas	Board member, Sales Director for export	-	12/2015 – 12/2019
Genadij Jurgelevič	Board member	-	12/2015 – 12/2019
Kęstutis Dapkevičius	Board member	-	04/2016 – 04/2020
Raimonda Pilkė	CFO/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 supervisory council and board. The Company has not granted any loans or guarantees, and did not pay out any dividends to these persons.

In January-June 2017 the job-related payoffs amounting to EUR 52,7 thousand including taxes were calculated for director general and chief accountant. Average is EUR 26,3 thousand for each member. Payoffs non-cash charge amounted to EUR 0,6 thousand. To those individuals the Company had not transferred any property, provide loans or guarantees, and pay dividends.

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

Detailed information in major events can be found on the Company's website www.degtine.ltor the website of, NASDAQ OMX Baltic www.nasdaqomxbaltic.com.

Interim Statement

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-June, 2017	January-june, 2016	Change (+,-), percent
Alcoholic beverages	000s litres	5,498.7	6,230.1	-11,7

In January-June 2017 alcoholic beverages production decreased by 11.7 percent compared to the same period last year because of the decrease in sales volumes of alcoholic beverages in the domestic market.

The Branch produces distilled and rectified food grade ethyl alcohol from rye and triticale. 4,716.9 thousand liters of absolute alcohol was produced in January-June 2017.

Cogeneration plant 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. 4,603.0 MWh of electric power was generated in January-June 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.

Interim Statement

5 Commercial activities

Sales revenue excluding exise duty in January-June 2017 reached EUR 11,724.5 thousand, in January-June 2016 – EUR 10,505.4 thousand. Sales revenue excluding exise duty increased by 11.6 percent, compared to the same time period last year.

Sales in the Lithuanian market made up the largest portion of the Company's sales (67.2 percent). In the EU market sales increased by 24.4 percent, sales to third countries increased by 79.9 percent. Sales to Poland, Latvia, Estonia and France made up the largest portion of the income from the EU market. Sales to Russia, Ukraine, Belarus and Georgia made up the largest portion of the income from third countries.

Alcoholic beverages sold

Name	Measurement unit	January-June, 2017	January-June, 2016	Change (+,-), percent
Alcoholic beverages	000s litres	6,182.7	6,573.2	-5.9

5.9 percent less alcoholic beverages were sold in January-June 2017 than in the same time frame last year. Vodka made up the largest weighted portion of the sales, that is, 55.6 percent of liters of all alcoholic beverages sold.

The result of the sales volumes during six-month period 2017 was mainly influenced by decrease in sales of fortified wine. Also, the vodka market, in 2017 January - June drop -6% (according to AC Nielsen, compared to the same period of last year), while the volume of market share of AB Vilniaus degtinė decreased by -1 pp to 22.4%.

In Lithuania, the advertisement of alcohol is restricted by the Law on Advertising of the Republic of Lithuania and Law on Alcohol Control of the Republic of Lithuania.

Resources and raw materials needed for production are bought at market prices from reliable suppliers in Lithuania and abroad. The suppliers by country are: 77 percent from Lithuania, 11 percent from Poland , 5 percent from France and 7 percent from other countries.

Interim Statement

6 Economic-Financial Ratios

Detailed information on the results of the Company's activities is presented in interim financial statements. Financial statements were developed in accordance with International Financial Reporting Standards adopted for application in the EU.

Economic-financial indices

Indices	January – June, 2017 / 30/06/2017	January – June, 2016 / 31/12/2016	Change (+,-), percent
Sales revenue (loss), excl. excise tax, EUR	11,724,495	10,505,437	+11.6
EBIT, EUR	1,023,903	983,393	+4.1
EBITDA, EUR	1,912,730	1,504,088	+27.2
Profit (loss) before taxes, EUR	851,639	948,175	-10.2
Profit (loss) of the period, EUR	725,860	878,987	-17.4
Depreciation, amortization and impairment, EUR	888,827	520,695	+70.7
Non-current assets, EUR	14,783,963	15,439,134	-4.3
Current assets, EUR	15,359,608	11,980,271	+28.2
Total assets, EUR	30,143,571	27,419,405	+9.9
Share capital, EUR	7,078,445	7,078,445	-
Owner's equity , EUR	15,691,259	14,961,022	+4.9
Non-current liabilities, EUR	3,818,609	4,192,907	-8.9
Current liabilities, EUR	10,633,703	8,265,476	+28.7
Net cash flows from operating activities, EUR	(5,995,150)	1,602,740	-4.7 times
Net cash flows form investing activities, EUR	(301,833)	(1,156,065)	+73.9
Net cash flows from financing activities, EUR	4,538,857	(1,262,796)	+4.6 times
Gross profit margin ratio, %	35.04	35.86	-0.8
Operating (net) profit margin ratio, %	6.19	8.37	-2.2
EBIT profit margin ratio, %	8.73	9.36	-0.6
EBITDA profit margin ratio, %	16.31	14.31	-2.0
ROE (return on equity), ratio	4.92	6.76	-1.8
ROA (return on assets), ratio	3.26	4.01	-0.8
Quick ratio	1.11	1.04	+6.7
Net working capital turnover ratio	3.220	5.270	-38.9
EPS (earnings per share), EUR	0.030	0.036	-16.7
Debt to equity ratio	0.92	0.77	+19.5

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

Interim Statement

6 Economic-Financial Ratios (cont'd)

Sales revenue excluding excise duty of AB Vilniaus degtine amounted to EUR 11,724.5 thousand in the six-month period of 2017 and increased by 11.6 percent, compared to the same time period last year (in 2016 – EUR 10,505.4 thousand).

The Company's profit amounted to EUR 725,9 thousands in the six-month period of 2017 and decreased by 17.4 percent, compared to the same time period last year (in 2016 – EUR 879 thousands).

EBITDA of the Company amounted to EUR 1,912.7 thousands in January-June 2017 and increased by 27.2 percent, compared to the same time period last year (in January-June 2016 – EUR 1,504.1 thousands). EBITDA margin has increased from 14.31 percent to 16.31 percent during the year.

7 Risk Factors

Economic Risk Factors

The main risk factors are: large concentration of produced alcohol in the domestic market, competition, the extent of the shadow economy, the possibility of an increase in excise tax, increasing restrictions on the advertisement and sale of alcohol, uncertainty in the political situation of certain export markets (Ukraine, Russia), overproduction of ethyl alcohol in the region. 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 entered into 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 a part of its assets. Information on pledged assets and financial risk is presented in Note 28 and Note 26 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 224,5 thousand in costs for product packaging waste management in January-June 2017.

Interim Statement

7 Risk Factors (cont'd)

Technical –Technological Risk Factors

Since a portion of the Company's technological installations are worn-out, 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 26 to the annual financial statements.

8 Employees

Average number of employees

Indices	January-June, 2017	January-June, 2016
Number of employees	165	161

Average number of employees increased by 2.5 percent as a result of increased scope of production and sales volume of rectified and distilled ethyl alcohol.

Average monthly salary of employees

Employees	January-June, 2017		January-June, 2016	
	Number as on 30/06/2017	Average monthly salary (in EUR)	Number as on 30/06/2016	Average monthly salary (in EUR)
Managers (directors)	4	6,119	4	5,209
Specialists and white-collar workers	62	1,326	64	1,207
Blue-collar workers	99	740	94	580
Total	165	1,041	162	870

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.

Interim Statement

8 Employees (cont'd)

Employee distribution by education

Employees	Number as on 30/06/2017	Number as on 30/06/2016
With higher education	85	64
With post-secondary education	34	21
With higher secondary or vocational secondary education	46	77
Total	165	162

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 is formed during the production process are collected and purified in the Company's own purification facilities. To improve the control over the work of sewage purification facilities, regularly carries out control tests. The program of monitoring underground waters of the water body is carried out.

Interim 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 means and accident liquidation plan have been prepared. The Company's buildings have been assessed and marked in accordance with the general fire-prevention rules.

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 4,4 thousand were paid for the use of national natural resources (water) and EUR 1,6 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 system

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

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

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

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

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

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

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.

Interim Statement

12 Business Plans and Forecasts

Better sales performance during 2016 was mainly influenced by export growth, introduction of new products and renewed "Bajorų Premium", "Barska Premium" (export), "Bajorų Klasikinė" and brandy "Renaissance" product lines.

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 2017 are:

- Strengthening of brands on domestic market:
  investing in the primary brands: "Bajorų", "Sobieski", "Renaissance", "Gedimino", "Čepkelių", "Starka";
- Achieve 24 percent of Lithuanian vodka market;
- Strengthen Company's position of Lithuanian whiskey market up to 8 percent of the market share;
- Strengthening of MBWS Group brands positions in Lithuanian and Eastern European markets: investing in the primary brands: "William Peel", "Gautier", "Marie Brizard", "Sobieski";

It is expected that due to the rapid growth of excise duty in 2017 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 and CFO
Raimonda Pilkė

Vilnius,
28 September, 2017