



**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington D.C. 20549

**Form 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM**

**COMMISSION FILE NUMBER 0-24341**

**Central European Distribution Corporation**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**54-1865271**  
(I.R.S. Employer  
Identification No.)

**Two Bala Plaza, Suite #300, Bala Cynwyd, PA**  
(Address of Principal Executive Offices)

**19004**  
(Zip code)

**Registrant's telephone number, including area code: (610) 660-7817**

**Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, par value \$0.01 per share**

(Title of Class)

**Securities registered pursuant to Section 12(g) of the Act:**

**Not Applicable**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☒.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2007, was approximately \$887,173,901.76 (based on the closing price of the registrant's common stock on the NASDAQ Global Select Market)

As of February 20, 2008, the registrant had 40,574,358 shares of common stock outstanding.

**Documents Incorporated by Reference**

Portions of the proxy statement for the annual meeting of stockholders to be held on May 1, 2008 are incorporated by reference into Part III.



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The disclosure and analysis of Central European Distribution Corporation, or the Company, in this report contain forward-looking statements, which provide the Company's current expectations or forecasts of future events. Forward-looking statements in this report include, without limitation:

- information concerning possible or assumed future results of operations, trends in financial results and business plans, including those relating to earnings growth and revenue growth;
- statements about the level of the Company's costs and operating expenses relative to its revenues, and about the expected composition of its revenues;
- statements about the Company's acquisition and investment opportunities, such as the proposed investment in the Whitehall Group and the proposed Parliament acquisition, or the integration of its acquisitions and investments;
- information about the impact of Polish regulations on the Company's business;
- other statements about the Company's plans, objectives, expectations and intentions; and
- other statements that are not historical facts.

Words such as "believes", "anticipates" and "intends" may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. The Company's actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the factors described in the section entitled "Risk Factors" in this report. Other factors besides those described in this report could also affect actual results. You should carefully consider the factors described in the section entitled "Risk Factors" in evaluating the Company's forward-looking statements.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this report, or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks the Company describes in the reports it files from time to time with the Securities and Exchange Commission, or SEC.

In this Form 10-K and any amendment or supplement hereto, unless otherwise indicated, the terms "CEDC", the "Company", "we", "us", and "our" refer and relate to Central European Distribution Corporation, a Delaware corporation, and, where appropriate, its subsidiaries.



## PART I

### Item 1. Business

We are Central Europe's largest integrated spirit beverages business. We produce vodka at two distilleries in Poland and are the largest distributor of alcoholic beverages with a country-wide distribution network. We are also a leading importer of spirits, wine and beer in Poland. Our products are also exported out of Poland. Since July 2006, we have been expanding our importation and distribution capabilities outside of Poland through Bols Hungary. Measures of our revenue, profit and total assets can be found in our consolidated financial statements. In addition, measures of our revenue and long-lived assets, broken down by geographic region, can be found in Note 20 to our consolidated financial statements.

### Our Competitive Strengths

**Leading national distributor of alcoholic beverages in Poland.** We are the leading national distributor of alcoholic beverages in Poland by value, and we believe we offer one of the broadest portfolios of alcoholic beverages with over 700 brands. We operate in a highly fragmented market served by an estimated 170 distributors, and we believe there is a significant gap in market share between us and our nearest competitors, Alti Plus S.A. and Sobieski Group, which operate on a multiregional, rather than national basis. We operate the largest nationwide delivery service in Poland, and we provide next day delivery through our 17 distribution centers, 87 satellite branches and large fleet of delivery trucks. We believe that we are the leading distributor in each category of alcoholic beverages we distribute in Poland, except for domestic beer. We believe that we have strong negotiating leverage with our suppliers because of our large volume of purchases and are thus able to obtain good terms.

**Leading producer and marketer of domestic vodkas in Poland.** We are the largest vodka producer by value and volume in Poland, and one of the largest producers of vodka in the world. We produce and sell approximately 9.3 million nine-liter cases of vodka per year in the four main vodka segments in Poland: top premium, premium, mainstream and economy. In the Bols distillery, we produce the *Bols* and *Soplica* vodka brands among other spirit brands. *Bols Vodka* is the number one selling premium vodka sold in Poland by volume and value. *Soplica* has consistently been one of the top ten mainstream selling vodkas in Poland. Sales of nine liter cases of *Soplica* increased by 22% in 2007, making it one of the fastest growing vodka brands in Poland and nine liter case sales of our flagship *Bols* brand increased by 19% in 2007. Our subsidiary, Polmos Białystok, produces *Absolwent*, which has been the number one selling vodka in Poland for the last six years with sales reaching a record of 4.12 million nine liter cases in 2007. In addition to *Absolwent* brand, Polmos Białystok also produces *Zubrówka*, which also is exported out of Poland, to many markets including the United States, England, Japan and France, where it is the number two imported premium vodka by volume. Lastly, we produce *Royal Vodka* which is the number one selling vodka in Hungary, where it is distributed by our subsidiary Bols Hungary.

**Leading importer of alcoholic beverages in Poland.** We are a leading importer of spirits, wine and beer in Poland and Hungary. We currently import on an exclusive basis 40 leading brands of spirits, wine from over 40 producers and 8 brands of beer, including internationally recognized brands such as *Carlo Rossi Wines*, *Concha y Toro wines*, *Metaxa Brandy*, *Rémy Martin Cognac*, *Guinness*, *Sutter Home wines*, *Grants Whiskey*, *Jagermeister*, *E&J Gallo wines*, *Jim Beam Bourbon*, *Sierra Tequila*, *Teachers Whisky*, *Campari*, *Cinzano*, *Skyy Vodka* and *Old Smuggler*. Margins on our import portfolio are on average two to three times higher than margins we realize on products that we distribute for other importers or domestic producers.

**Attractive platform for international spirit companies to market and sell products in Poland and Hungary.** Our extensive distribution network in Poland, and our sales and marketing organizations in Poland and Hungary, provide us with an opportunity to continue to expand our import portfolio. We believe we are well placed to service the needs of other international spirit companies that wish to sell products in the markets in which we operate without the need to establish new infrastructure to service these markets.



**Attractive market dynamics.** We believe that a combination of factors make Poland an attractive market for companies involved in the alcoholic beverages industry.

- Poland has historically been a large market for vodka consumption. Poland ranks as the fourth largest consumer of vodka in the world by volume. Total alcoholic beverage consumption in Poland is estimated to grow by 4% to 5% in 2008 to reach total sales of 641.5 million liters of pure alcohol in 2008. We are experiencing a premiumization effect in the Polish and Hungarian markets whereby sales of both domestic and imported branded products are growing faster than the overall market, with sales of imported products growing the fastest.
- Changes to the regulatory environment as a result of Poland's accession into the European Union have benefited the alcoholic beverages industry. On May 1, 2004, Poland joined the European Union, resulting in the removal of customs borders between Poland and the other members of the European Union. As a result, the duty on imported alcohol products from other members of the European Union was eliminated, reducing prices on our imported alcohol products and increasing their sales.
- We believe, based on industry statistics and our own experience that approximately 70% of vodka sales in Poland are still made through so-called "traditional trade", which consists primarily of smaller stores, usually owned and run by independent entrepreneurs, and local supermarkets. Traditional trade provides our primary source of sales. Despite the increasing role of so called "modern trade" in the Polish market, we believe that a significant portion of the sales of vodka will in the future continue to be made in the traditional trade channel in Poland.

**Professional and experienced management team.** Our management team has significant experience in the alcoholic beverage industry in the region and has increased profitability and implemented effective internal control over financial reporting. William Carey, our chairman, chief executive officer and president, was one of our founders and has been a key contributor to the growth and success of our business since its inception. This increase has been driven in part by acquisitions, which our management team has efficiently integrated into our existing operations.

## Overview

### *Production*

We are the largest vodka producer by value and volume in Poland, and one of the largest producers of vodka in the world. We produce and sell approximately 9.3 million nine-liter cases of vodka per year in the four main vodka segments in Poland: top premium, premium, mainstream and economy. In addition, in our Bols plant, we produce the top selling vodka in Hungary, *Royal Vodka*, which we distribute through our Hungarian subsidiary, Bols Hungary.

We purchased the Bols distillery on August 17, 2005 from Rémy Cointreau S.A., Takirra Investment Corporation N.V. and Botapol Management B.V. (an indirect subsidiary of Rémy Cointreau S.A.). The distillery is one of the most modern in Poland. In the Bols distillery, we produce the *Bols* and *Soplica* vodka brands among other spirit brands. Bols vodka is the number one selling premium vodka in Poland and Hungary by value. *Soplica*, a mainstream brand, has consistently been one of the top ten selling vodkas sold in Poland.

As part of a privatization transaction with the Polish State Treasury, we acquired 61% of Polmos Białystok on October 12, 2005. Our shareholding in Polmos Białystok, which is listed on the Warsaw Stock Exchange, was subsequently increased to 90.14% through share purchases on the open market in 2005 and tender offers in 2006 and February 2007. In addition, in June 2007 we completed a mandatory buyout of most of the remaining shares of Polmos Białystok, thus increasing our total interest to 99.93%. Polmos Białystok has modern technical facilities. The management of Polmos Białystok has many years of experience and has built the number one selling mainstream vodka in Poland, *Absolwent*, which has been the number one selling vodka for the last seven years based on volume and sales. In addition to *Absolwent*, Polmos Białystok also produces *Zubrówka*.



The *Zubrówka* brand is also exported out of Poland, mainly to Europe. In 2006, net export sales revenues of *Zubrówka* grew by 41% over 2005 sales and by another 36% in 2007 over 2006 sales. In 2007, we rolled out the new *Zubrówka* premium export package to most markets where it has been well received.

In addition we have completed the construction of two rectification units: one unit at our Bols facility and one unit at our Polmos Białystok facility. Both rectification units went on-line in October 2007. We expect that these investments will allow us to reduce our costs of purchasing rectified spirits and ensure their consistent quality.

In July 2007, we announced that we signed a binding letter of intent to acquire a significant majority interest in a company in Russia holding various alcoholic beverage production and distribution assets, including the *Parliament* vodka brand. *Parliament* vodka is the number one selling premium vodka brand in Russia. *Parliament* is expected to reach sales of over 3 million 9 liter cases in 2008, which would represent a 20% gain over 2007 sales. This acquisition is subject to customary closing conditions. We currently expect to consummate the transaction in the first quarter of 2008. *Parliament* would give us our first platform in Russia where we can not only grow the *Parliament* brand domestically, but also could add import brands into the mix, thereby leveraging the existing structure to take advantage of the premiumization of alcohol consumption taking place in the Russian market.

#### *Distribution*

We are the leading distributor by value of alcoholic beverages in Poland. Our business involves the distribution of products that we import on an exclusive basis and products we produce from our two distilleries (Bols and Polmos Białystok ). In addition, we handle the distribution of a range of products from the local and international drinks companies operating in Poland for which we are the largest distributor for many of such suppliers.

We operate the largest nationwide next-day alcoholic beverage delivery service with 17 distribution centers and 87 satellite branches located throughout Poland. We distribute over 700 brands of alcoholic beverages consisting of a wide range of alcoholic products, including spirits, wine and beer, as well as non-alcoholic beverages.

The following table illustrates the breakdown of the products we distributed in the twelve months ended December 31, 2007, 2006 and 2005:

<u>Sales Mix by Product Category</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Vodka .....	72%	75%	73%
Beer .....	9%	9%	10%
Wine .....	8%	8%	9%
Spirits other than vodka .....	10%	7%	6%
Other .....	1%	1%	2%
<b>Total</b> .....	<b>100%</b>	<b>100%</b>	<b>100%</b>

We distribute products throughout Poland directly to approximately 39,000 outlets, including off-trade establishments, such as small and medium-size retail outlets, petrol stations, duty free stores, supermarkets and hypermarkets, and on-trade locations, such as bars, nightclubs, hotels and restaurants, where such products are consumed. These accounts are serviced by our 678 salespeople in Poland and Hungary. As one of our key objectives is to distribute more of our own products over time, we have established an incentive compensation system for our salespeople for both products that we produce and products that we import exclusively into Poland.

When we first began distributing domestic vodka in Poland in 1996, we were one of approximately 1,000 distributors operating in Poland. Today we estimate that there are approximately 130 vodka distributors





remaining with the top 40 accounting for an estimated 85% of sales and believe that in the coming few years that number will stabilize at around 20 to 30. We believe that during this time of consolidation, we have been the main consolidator on the market, having acquired 20 distribution companies, including a wine importer while many other distributors have gone out of business.

In July 2006 we acquired 100% of the share capital of Bols Hungary and the “*Royal Vodka*” trademark. In both cases the seller was DELB Holding BV, a subsidiary of Rémy Cointreau S.A. Bols Hungary distributes *Royal Vodka*, which is the number one selling vodka in Hungary with a market share of approximately 25.7% based on value, and which is produced by us in Poland at our Bols production facility. On September 26, 2006, we acquired from Lucas Bols B.V., a perpetual, exclusive, royalty-free and sublicensable license to use the *Bols Vodka* trademark in the marketing and sale of our products in Hungary. *Bols Vodka* is the number one premium vodka in Hungary. In addition to *Royal Vodka*, and *Bols Vodka*, Bols Hungary has an extensive import portfolio which includes the Rémy Cointreau Group’s portfolio, the Grant’s portfolio, the C&C portfolio and Jagermeister. Hungary is one of the leading markets in the world for Jagermeister.

In July 2007, we acquired 100% of the outstanding shares of PHS Sp. z o.o., an alcohol distributor located in Western Poland. In the second half of 2007, we successfully integrated PHS into the CEDC group.

#### *Import and Export Activities*

We have exclusive rights to import and distribute approximately 40 leading brands of spirits, wine and beer into Poland and distribute these products throughout Poland. We also provide marketing support to the suppliers who have entrusted us with their brands.

Our exclusive import brands include the following:

<u>LIQUEURS</u>	<u>WHITE VODKAS</u>	<u>BROWN SPIRITS</u>	<u>VERMOUTH &amp; BITTERS</u>	<u>WINE &amp; CHAMPAGNES</u>	<u>BEER</u>	<u>NON ALCOHOLIC</u>
Disaronno Amaretto	Skyv vodka	Jim Beam	Cinzano-vermouth	Sutter Home	Guinness	Evian
Jeagermeister	Tequila Sierra	Cognac Camus	Campari	Torres	Kilkenny	Badoit
Sambuca	Cana Rio	Cognac Remy Martin		Concha y Toro	Bitburger	
Amaretto Gozio	Gin Finsbury	Metaxa		Gallo	Grolsh	
Amaretto Florence	Ouzo	Brandy Torres		Carlo Rossi	Amsterdam	
Amaretto Venice	Grappa Piave	Brandy St Remy		B. P. Rothschild	Franziskaner	
Cointreau	Grappa Primavera	Whisky William’s		Laroche	Budweiser	
Passoa	Sauza	Whisky Teacher’s		Frescobaldi	Corona	
Bols Liqueurs	Larios Gin	Whisky Old Smuggler		Codorniu		
		Whisky Glen Grant		Piper Heidsieck		
		Grant’s		Penfolds		
		Glenfiddich		Faustino		
		Balvenie		J.Moreau & Fils		
		Clan MacGregor		Kressmann		
		Rum Old Pascas		Boire Manoux		
				M.Chapoutier		



As a group on a comparable basis, our exclusive import portfolio grew 46%, based on value, in 2007 over our 2006 results.

In 2007, we entered into a new distribution agreement with Marsalle Company in the United States, where sales of Zubrówka have commenced in major cities, including Chicago and New York. During 2008, we anticipate rolling out Zubrówka out in other major cities across the country.

In June 2006, we signed three new distribution agreements in a number of significant markets for our Zubrówka vodka brand. We signed a long-term distribution agreement with Pernod Ricard, effective July 1, 2006, for a number of key markets around the world including France, where Zubrówka is the number one premium vodka. We also signed new distribution agreements with distributors in the United Kingdom (Marblehead Brand Development Co.), Denmark, Norway, Sweden, Finland and Japan (Lead Off, Ltd).

We have worked diligently to create brand awareness and sales for our exclusive import products. As a result of this work, our import portfolio has the number one selling mainstream wine, Carlo Rossi.

### History

We were incorporated under the laws of the State of Delaware on September 4, 1997. Our registered office is c/o Corporation Service Company, 2711 Centreville Road, Suite 400, Wilmington, Delaware 19808. Our principal executive office is Two Bala Plaza, Suite 300, Bala Cynwyd, PA 19004, United States of America, and its telephone number is +1-610-660-7817.

Carey Agri, CEDC's predecessor and still one of our main distribution subsidiaries, was incorporated as a limited liability company in July 1990 in Poland. It was founded by, among others William V. Carey, our President and Chief Executive Officer since CEDC's inception. We began our distribution business in 1990. In February 1991, Carey Agri was granted its first import beer license. Shortly thereafter, other beer and spirit brands were added to the import portfolio. In 1993, we began to implement a direct next-day delivery system in Warsaw. We replicated this Warsaw model in the cities of Krakow (1993), Wroclaw (1994), Szczecin (1994), Gdynia (1994), Katowice (1995), Torun (1995) and Poznan (1996). In 1996, Carey Agri began to distribute domestic vodka which they added to their already existing distribution portfolio.

On November 28, 1997, CEDC and all of the holders of the shares of Carey Agri's common stock entered into a contribution agreement, pursuant to which the holders of shares of Carey Agri's common stock transferred all such shares to CEDC in exchange for an aggregate of 1,780,000 shares of CEDC's common stock. As a result of this share exchange, Carey Agri became a wholly owned subsidiary of CEDC. In July 1998, CEDC issued 2,000,000 shares of its common stock in an initial public offering and was admitted for quotation on the Nasdaq SmallCap Market, raising net proceeds of approximately U.S.\$10.6 million. The funds raised in the initial public offering were used to acquire three leading regional distributors and the leading wine importer in Poland and to expand penetration of our vodka distribution throughout Poland. In June 1999, we were accepted onto the Nasdaq National Market (currently Nasdaq Global Select Market) where we trade under the symbol "CEDC". By 2001, we had acquired the three distribution companies, Agis S.A., Polskie Hurtownie Alkoholi S.A. and MTC sp. z o.o., and the wine importer PWW sp. z o.o. we had targeted during the initial public offering and had significantly increased the range and the scale of our distribution business.

For the following years, we have been increasing our distribution capacity through organic growth and by acquiring distributors primarily involved in the vodka distribution business and by expanding the branch network, particularly in regions where we neither distributed directly nor had a leading market position.

Following the completion of this first group of acquisitions, we have acquired and integrated into our network additional distribution companies throughout Poland, thereby solidifying our direct-to-retail nationwide distribution model. In 2005, we realized a long-term goal in acquiring two leading production companies by





purchasing a 66% stake in Polmos Bialystok and a 100% stake in Bols to augment our import and distribution business. In December 2006 and February 2007, we concluded two tender offers, including a mandatory buyout of most of the remaining shares of Polmos Bialystok in June 2007, thus increasing our total interest to 99.93%. As a result, today we are the largest vodka producer by value and the leading distributor and importer of alcoholic beverages by value in Poland. In July 2006, we acquired our first operating company outside of Poland: Bols Hungary.

### Industry Overview

Poland is the fourth largest market in the world for the consumption of vodka by volume and is in the top 25 markets in total alcohol consumption worldwide. The total net value of the alcoholic beverage market in Poland was estimated to be approximately \$6 to \$8 billion in 2007. We estimate total sales value of alcoholic beverages at current prices increased by approximately 7-9% from December 2006 to December 2007. The increase was the result of increased sales value of all main groups of alcoholic products, for which we estimate the following growth: beer (by approximately 8%), spirit products (by approximately 10%) and wine (by approximately 15%). Beer and vodka account for approximately 91% of the value of sales of all alcoholic beverages.

The sales and distribution of alcoholic beverages is typically a seasonal business, for the 12 months ending December 31, 2007, over 33% of our sales was realized during the fourth quarter as compared to 19% during the first quarter. Further information regarding quarterly financial information, can be found in Note 19 to our Consolidated Financial Statements.

### Market Segmentation

#### *Spirits*

Domestic vodka consumption dominates the Polish spirits market with over 96% market share, as Poland is the fourth largest market in the world for the consumption of vodka.

#### *Vodka*

The Polish vodka market is divided into four segments based on quality and price(\*):

- Top premium and imported vodkas, with such brands as *Finlandia*, *Absolut*, ***Bols Excellent***, *Chopin*, and *Królewska*;
- Premium segment, with such brands as ***Bols Vodka***, *Sobieski*, *Wyborowa*, *Smirnoff*, *Eristoff*, *Maximus*, and ***Palace Vodka***;
- Mainstream segment, with such brands as *Absolwent*, *Batory*, ***Złota Gorzka***, *Luksusowa*, *Soplica*, ***Zubrówka***, *Zoladkowa Gorzka*, *Polska*; and
- Economy segment, with such brands as *Starogardzka*, *Krakowska*, ***Boss***, ***Niagara***, ***Czysta Slaska***, *Prezydent*, *Z Czerwona Kartka*, and ***Ludowa***.

(\*) Brands in bold face type are produced by us.

In terms of value, the top premium and imported segment accounts for approximately 5% of total sales volume of vodka, while the premium segment accounts for approximately 20% of total sales volume. The mainstream segment which is the largest, now represents approximately 40% of total sales volume. Sales in the economy segment have declined such that the economy segment currently represents approximately 35% of total sales volume.

#### *Wine*

The Polish wine market, which grew to an estimated 86 million liters in 2007 is represented primarily by two categories: table wines, which account for 3.5% of the total alcohol market and sparkling wines, which



account for 1.1% of the total alcohol market. As Poland has almost no local wine production, the wine market has traditionally been dominated by imports, with lower priced Bulgarian wines representing the bulk of sales. However, over the last three years, sales of new world wines from regions such as the United States, Chile, Argentina and Australia have seen rapid growth. In 2007, it is estimated that sales of wine from these regions grew by 47% in value as compared to a decrease in sales of wine from Bulgaria of 3%.

We believe that consumer preference is trending towards higher priced table wines. The best selling wines in Poland previously retailed for under \$4 per bottle. Currently, the best selling wines retail in the \$4 to \$8 range. As the price point for wine moves up, we believe we are in a good position to take advantage of this trend as our import wine portfolio has a concentration in the \$6 to \$10 retail price range and higher.

### *Beer*

Poland is the fourth largest beer market in Europe and has been growing since 1993. Sales of beer account for 52.9% of the total sales value of alcoholic beverages in Poland. Consumption grew approximately 8.4% during 2007 to reach approximately 35.1 million hectoliters. As a result, beer consumption in Poland has reached average European Union levels of approximately 93 liters per capita per annum in 2007. Therefore, we anticipate that future growth in the beer market is likely to slow to approximately 2% to 3% per year in the next few years.

Three major international producers, Heineken, SAB Miller and Carlsberg, control approximately 85% of the market through their local brands. Imported brands represent less than 1% of the total beer market in Poland.

### *Distribution Overview*

In 1996 there were approximately 1,000 distributors of domestic vodka in Poland. Since 1996, more than 800 distributors have gone out of business or were sold as the vodka distribution market has consolidated. We believe, that during this period, we have been the main consolidator in the market. We have acquired 18 distribution companies throughout Poland, either by purchasing their existing businesses or by acquiring their capital stock, and have integrated them into our nationwide distribution platform. We believe this consolidation trend will continue until the number of distributors stabilizes at around 20 to 30 distributors. Many of the distributors who have gone out of business were small independent operators and as such lacked or had limited operating leverage with suppliers to garner adequate margins.

As noted above the market for the distribution of alcoholic beverages in Poland is still fragmented. Most alcohol distributors mainly deliver a range of beers, wines, and spirits, and operate regionally rather than nationally, due to the difficulties in establishing a nationwide distribution system, such as the large amount of capital required to set up such a system, and an extremely poor road infrastructure.

In Poland there is a ban on “above the line” advertising of alcoholic beverages, which we explain below, under “Government Regulations—Alcohol Advertising Restrictions”. This increases the importance of direct access to customers to promote and develop brands. We believe that our established nationwide distribution network provides us with an advantage by enabling us to promote our brands using “point-of-sale” advertising and promotions.

Distributors of alcoholic beverages deliver to both off-trade sites (traditional and modern trade) and on-trade sites; however, most distributors concentrate primarily on the off-trade. Off-trade establishments include small and medium-size retail outlets, gas stations, duty free stores, supermarkets and hypermarkets, and on-trade locations include bars, nightclubs, hotels and restaurants, where such products are consumed.

There has been a trend of expansion of major discounters and petrol chain stores. This trend is apparent in the rapid expansion of petrol stations, which are owned and operated by major international companies such as Shell, BP, and Statoil and by Polish companies such as Orlen, which is the largest in Poland. Many of these



petrol stations contain convenience stores, which sell all types of alcoholic beverages and in many areas serve as local convenience/liquor stores. These chains are ordering direct from suppliers and from distributors who can service either the whole country or large parts of the country. We believe the small regional distributor will find it increasingly difficult to compete in this environment and will probably find it difficult to operate a viable business model.

In the light of the changing trends in the distribution industry, we feel we are in a good position to service the national chain clients and to acquire those distribution companies that fit into our nationwide distribution system.

We operate a decentralized distribution system of 17 distribution centers and 87 satellite branches for delivery to our retail clients. Our branches are strategically located throughout Poland to effectively compensate for the current poor road infrastructure. Distribution and day-to-day decisions at these facilities are made by local management, who report directly to our central office in Warsaw. All strategic initiatives, however, are developed and disseminated from the central office.

## **Operations**

### ***Our employees***

As of December 31, 2007, 2006 and 2005 we employed, on a full time basis: 3,361, 3,015 and 2,917 employees, respectively. As of December 31, 2007 we employed 734 full time employees at Bols and Polmos Białystok, of which 204 were production employees.

As of December 31, 2007 we employed 56 employees in our Hungarian subsidiary, Bols Hungary, which we acquired in July 2006.

Our turnover rate has averaged approximately 8-10% over the last five years. In the interest of keeping our company current and efficient, we provide periodic training sessions every year for our key employees. This training is overseen by our Human Resources Department.

Polish labor laws require that certain benefits be provided to employees, such as a certain number of vacation days, maternity leave and retirement bonuses. The law also restricts us from terminating employees without cause and requires in most instances a severance payment of one to three months' salary. Additionally, we are required to contribute monthly payments to the governmental health and pension system. Most of our employees are not unionized, and we have had no significant employee relations issues. In addition to the required Polish labor law requirements, we maintain an employee incentive stock option plan for key management and provide supplemental health insurance for qualified employees.

### ***Sales Organization***

In Poland, we employ approximately 754 salespeople who are assigned to one of our 17 distribution centers and 87 satellite branches. In Hungary, we employ approximately 31 salespeople who cover primarily on-trade and key account customers throughout the country. In 2006, we implemented a more targeted sales approach. We narrowed the focus of our domestically located salespeople by assigning each sales person to a specific channel: key accounts (hypermarkets, discount stores and gas stations), on-trade accounts or traditional trade accounts. We believe that a specific targeted sales focus in each of these channels is key to delivering future growth.

The hypermarket channel, which is expected to show further expansion, requires a dedicated national sales team to handle their specific requirements. In return, this provides us an opportunity to promote our brands in national chains utilizing techniques such as price promotions and pallet displays.



The use of a dedicated on-trade only sales team, the only national one in Poland to date, to work closely with bar, restaurant and hotel owners provides us with a key opportunity to promote and sell our brands to consumers. This is especially crucial given the restraints on media advertising for spirits. Finally, the traditional trade sales force continues to focus on the channel in Poland that is still the dominant area in terms of sales volume. In addition, each of these account groups is also assigned a marketing and merchandizing team that works in conjunction with the sales team to serve the client.

Our export team works separately from our domestic sales team and reports directly to our Director of Export.

### ***Marketing***

We have a marketing department, which manages the marketing support of the brands we produce in Poland as well as the brands for which we are the exclusive Polish importers, representing a combined marketing budget of approximately \$16.9 million for 2007. Additionally, the marketing team supports our export department in developing the packaging and promotional activities for our exports. We have recently centralized the management of the marketing team for all of our subsidiaries to ensure sharing of best marketing practices amongst all of our brands. We have a dedicated team of 30 marketing people, the largest such team in the spirits sector in Poland. Some of the activities that the team is focused on include developing programs such as on-pack promotions, on-trade promotions and point of sales merchandise. Our marketing team is constantly looking for marketing innovations to implement, such as our recently developed program of placing branded vodka coolers into selected outlets.

### ***Sources and Availability of Raw Materials for Spirits that We Produce***

The principal components in the production of our distilled spirits are products of agricultural origin, such as rectified spirit, as well as flavorings, such as bison grass for *Zubrówka*, and packaging materials, such as bottles, labels, caps and cardboard boxes. We purchase raw spirit, bison grass and all of our packaging materials from various sources in Poland by contractual arrangement and through purchases on the open market. Agreements with the suppliers of these raw materials are generally negotiated with indefinite terms, subject to each party's right of termination upon six months' prior written notice. The prices for these raw materials are negotiated every year.

We have several suppliers for each raw material in order to minimize the effect on our business if a supplier terminates its agreement with us or if disruption in the supply of raw materials occurs for any other reason. We have not experienced difficulty in satisfying our requirements with respect to any of the products needed for our spirit production and consider our sources of supply to be adequate at the present time.

We do not believe that we are dependant on any one supplier in our production activities.

### ***Internal Audit***

We have an internal audit group consisting of a team of five people who have direct access to the audit committee of our board of directors. The team's primary function is to ensure our internal control system is functioning properly. Additionally, the team is used from time to time to perform operational audits to determine areas of business improvements. Working in close cooperation with the audit committee, senior management and the external auditors, the internal audit function supports management to ensure that we are in compliance with all aspects of the Sarbanes-Oxley Act.

### ***Control of Bad Debts***

We believe that our close monitoring of customer accounts both at the relevant regional offices and from Warsaw has contributed to our success in maintaining a low ratio of bad debts to net sales. During each of 2005,



2006 and 2007, bad debt expense as a percentage of net sales, was less than 0.1%. Our management believes the ongoing enhancement of computer systems for interoffice financial and administrative controls will assist in maintaining a low ratio of bad debts to net sales as we continue to expand. In addition, on December 1, 2005 we put into effect new trading terms in the market regarding the purchasing of products from our distilleries. As a result, distributors must pay in cash or provide an acceptable bank guarantee for their purchases of our product from our distilleries. All significant distributors have signed the new trade terms, thereby reducing our bad debt exposure from our distillery business.

## Competition

The alcoholic beverage distribution industry in Poland is competitive and highly fragmented. We compete primarily with other distributors and indirectly with hypermarkets. We compete with various regional distributors in all regions where our distribution centers and satellite branches are located. Competition with these regional distributors is greatest with respect to domestic vodka brands. We address this regional competition, in part, through offering our customers competitive pricing, reliable service and in-store promotions of our own brands, which we believe gives us an advantage over our competitors. In addition, we have over 16 years of sales experience in establishing and developing relationships with our clients throughout Poland.

The level of hypermarkets (which have been the primary threat to alcoholic beverage distributors in Western Europe because they purchase directly from suppliers) has recently stabilized in Poland. We believe that the growth of hypermarkets and discounters may continue but will be hampered by the poor transportation infrastructure in Poland as well as various socio-economic factors, such as smaller average living spaces, which limits consumers' ability to buy in bulk. In addition, there has been recent legislation that has restricted hypermarkets' growth in order to protect smaller stores.

The production of spirits in Poland is also competitive. We compete primarily with eight other major spirit producers in Poland, some of which are privately-owned while others are still state-owned. The spirit market in Poland is dominated by the vodka market. The vodka market is broken down into four main segments: Top Premium and Imported, Premium, Mainstream and Economy. We produce vodka in all four segments and have our largest market share in the mainstream segment. Though vodka brands compete against each other from segment to segment, the most competition is found within each segment. As we have a presence in each category and have four of the top ten best selling vodka brands in Poland and as we have approximately 30% market share measured by value, we are in a good position to compete effectively in all four segments.

## Property, Plant and Equipment

*Headquarters, Sales Offices and Warehouses.* We have entered into leases for our Warsaw headquarters and most of our other 17 distribution centers and 87 satellite branches. Our Polish headquarter is located in Warsaw, Bobrowiecka 6, 00-728 Warsaw. Our distribution centers are located in: Gdansk, Warszawa, Olsztyn, Zielona Góra, Białystok (two centers), Torun, Stargard Szczecinski, Przeworsk, Zabkowice Slaskie, Chrzanów, Łódź, Konin, Łomza, Mosina and Minsk Mazowiecki. The amount of warehouse space leased for each distribution center averages 2,713 square meters. The amount of office and storage space leased for each satellite branch averages 368 square meters. The Warsaw lease expires on May 1, 2010, and neither party may terminate the lease except for material breaches. The Warsaw facility is approximately 9,765 square meters of warehouse and 3,457 square meters of office space which is currently used for our headquarters. We believe the warehouse facility has sufficient space to permit us to expand for the next two to three years without any further significant capital expenditure.

*Retail Outlets.* We have entered into a long term or indefinite term lease agreements with each of our six retail outlets. We have obtained agreements from the landlords to waive their rights to terminate the leases for a period of three years, provided that we are performing our obligations under these leases.





*Production and rectification facilities.* Our production facilities comprise two plants, one located in Białystok, Poland for Polmos Białystok and the other located in Oborniki Wielkopolskie, Poland for Bols. The Białystok facility is located on 78,665 square meters of land which are leased from the government on a perpetual usufruct basis. The production capacity of our production plant in Białystok is approximately 24 million liters of 100% alcohol per year and currently, we use approximately 75% to 85% of its production capacity. In the Polmos Białystok distillery we produce *Absolwent* (and its flavor extensions), *Zubrówka*, *Palace Vodka* and *Batory*. The rectification facilities at the Bols and Białystok plants can produce upwards of 90,000 liters of 100% spirit per day.

The Bols facility is located on 80,519 square meters of which 58,103 square meters are owned by us and 22,416 square meters are leased from the government on a perpetual usufruct basis. Currently, we use approximately 50% to 60% of the plant's production capacity. In the Bols distillery we produce *Bols Excellent*, *Bols Vodka* and its taste variations, *Soplica*, *Soplica Szlachetna Polska*, *Soplica Tradycyjna Polska*, *Soplica Wisniowa Polska*, *Soplica Staropolska*, *Boss*, *Slaska*, *Niagara* and *Royal Vodka*. The plot on which the Bols facility is located is unencumbered.

*Delivery trucks.* Our fleet of vehicles consists of 1,206 cars (including delivery trucks), 1,008 of which are owned by us and our subsidiaries and the remaining 198 are leased. As of December 31, 2007, their aggregate book value was PLN 25.4 million (\$10.4 million). The terms for the leased trucks are generally for two to five years and we treat them as capital leases.

#### ***Research and Development, Intellectual Property, Patents and Trademarks***

We do not have a separate research and development unit, as new product developments are primarily performed by our marketing department. Our activity in this field is generally related to improvements in packaging and extensions to our existing brand portfolio, such as introduction of flavored varieties of our main clear vodka brands—*Bols*, *Absolwent* and *Soplica*—or revised production processes, leading to improved taste.

We own a number of trademarks, most of which are for vodka brands, which include the following: *Zubrówka*, *Soplica Vodka* and *Absolwent* in Poland and *Bols Vodka* in Poland, Hungary and Russia.

#### **Government Regulations**

The Company is subject to a range of regulations in the countries in which it operates. Where it produces products, the Company is subject to environmental laws and regulations and may be required to obtain permits and licenses to operate its facilities. Where it distributes, markets and sells products, it may be subject to laws and regulations on trademark and brand registration, packaging and labeling, distribution methods and relationships, pricing and price changes, sales promotions and public relations. The Company is also subject to rules and regulations relating to changes in officers or directors, ownership or control.

The Company believes it is in compliance in all material respects with all applicable governmental laws and regulations in the countries in which it operates, and expects all material governmental permits and consents to be renewed by the relevant governmental authorities upon expiration. The Company also believes that the cost of administration and compliance with, and liability under, such laws and regulations does not have, and is not expected to have, a material adverse impact on its financial condition, results of operations or cash flows.

#### ***Alcohol Advertising Restrictions***

In 2001, significant changes were introduced to the Polish Alcohol Awareness Act of October 26, 1982 (o. t. Dz. U. 2002. 147. 1231, as amended), by separating regulations addressing beer from regulations addressing other alcoholic beverages. According to the 2001 regulations, "above-the-line advertising and promotion", which is an advertising technique that is conventional in nature and impersonal to customers, using current traditional





media such as television, newspapers, magazines, radio, outdoor, and internet mass media, for alcoholic beverages with less than 18% alcohol content are permitted but are limited to the following: billboard advertising (provided that 20% of the surface of the billboard contains health warnings with respect to alcohol consumption), advertising in the press (only the inside of a publication-no front or back cover advertising is permitted); television advertising (only between the hours of 8:00 p.m. and 6:00 a.m.), and no advertising may be associated with sexual attractiveness, relaxation, health, or sport, nor may it incorporate children in any way. No above-the-line activities, even limited activities, are permitted for other alcoholic beverages.

For “below-the-line advertising and promotion”, which is an advertising technique that uses less conventional methods than the usual specific channels of advertising and typically focuses on direct means of communication, most commonly direct mail and e-mail, often using highly targeted lists of names to maximize response rates, for all alcoholic beverages, the government permits direct mail campaigns, promotions such as game contests, the packaging of gifts with an alcoholic beverage (e.g., a free glass attached to a bottle of spirits) and other similar promotions. However, incentive promotions must be conducted within the alcohol section of each store. In the on-premise outlets, most below-the-line activities are permitted.

We believe we are in material compliance with the government regulations regarding above-the-line and below-the-line advertising and promotion. To date, we have not been notified of any violation of these regulations.

### ***Anti-monopoly Regulations***

Several types of mergers and acquisitions between business entities, including acquisitions of stock, under circumstances specified in the Polish Anti-Monopoly Act, require prior notification to the Polish Anti-Monopoly Office. Sanctions for failure to properly notify the Polish Anti-Monopoly Office include fines imposed on parties to the transaction and members of their governing bodies. Under the Polish Anti-Monopoly Act, acquisitions may be blocked or have conditions imposed upon them by the Polish Anti-Monopoly Office, if the Polish Anti-Monopoly Office determines that the acquisition has a negative impact on the competitiveness of the Polish market. Generally, if an acquisition would lead to a combination of market shares totaling 40% or more of the relevant market, such an acquisition has a greater likelihood of being blocked; however, organic growth beyond this level is permitted, as long as a dominant position is not abused in the marketplace.

### ***Polish Competition Regulations***

Under the Polish Anti-Monopoly Act, a dominant position is presumed to exist if the supplier holds a market share of 40% or more. A dominant supplier cannot treat distributors unequally or discriminate among distributors wanting to buy its products. In addition, a dominant supplier faces a number of other restrictions, which generally prohibit it from abusing its dominant position. On September 30, 2005, the Polish Anti-Monopoly Office issued a decision which permitted our subsidiary Carey Agri to acquire Polmos Białystok, subject to certain conditions. These conditions included an obligation to effect at least 35% of the total domestic sales (measured separately in each calendar year) of the products manufactured by each of Bols and Polmos Białystok through non-CEDC distributors through December 31, 2008. These sales to independent distributors must be effected on the same criteria and terms as applied to distributors of our group. This condition also applies throughout the above-mentioned period separately to each of the following brands produced by Bols and Białystok: *Bols*, *Zubrówka*, *Soplica* and *Absolwent*. Carey Agri must report the fulfillment of the above conditions to the Polish Anti-Monopoly Office on an annual basis.

### ***Environmental Matters***

We are subject to a variety of laws and regulations relating to land use and environmental protection, including the Polish Environmental Protection Law of April 27, 2001 (Dz.U. 2006. 129.902, as amended), the Polish Waste Law of April 27, 2001 (Dz.U. 2001. 62.628 as amended), the Polish Water Management Law of



April 18, 2001 (Dz.U.2005.239. 2019, as amended) and the Polish Act on Entrepreneurs' obligations regarding the management of some types of waste and deposit charges of May 11, 2001 (Dz.U. 2001.63.639, as amended). We are not required to receive an integrated permit to operate our Polmos Białystok and Bols production plants. However, we receive certain permits for the economic use of the environment, including water permits, permits for production and storage of waste and permits for discharge of pollutants into the atmosphere. In addition, we have entered into certain agreements related to the servicing and disposal of our waste, including raw materials and products unsuitable for consumption or processing, paper, plastic, metal, glass and cardboard packaging, filtration materials (used water filter refills), used computer parts, unsegregated (mixed) residential waste, damaged thermometers and alcoholmeters, used engine and transmission oils, batteries and other waste containing hazardous substances. In addition, we pay required environmental taxes and charges related primarily to packaging materials and fuel consumption and we believe we are in material compliance with our regulatory requirements in this regard. While we may be subject to possible costs, such as clean-up costs, fines and third-party claims for property damage or personal injury due to violations of or liabilities under environmental laws and regulations, we believe that we are in material compliance with applicable requirements and are not aware of any material breaches of said laws and regulations.

### ***Trademarks and Distribution Agreements***

#### ***Trademarks***

With the acquisitions of the Bols and Polmos Białystok distilleries, we became the owners of vodka brand trademarks. The major trademarks we have acquired are: *Bols Vodka* brand (we have a perpetual, exclusive, royalty-free and sub-licensable trademark agreement for Poland, Russia and, as of September 26, 2006, Hungary), *Soplica*, which we own through Bols, and the *Absolwent* and *Zubrówka* brands, which we own through Polmos Białystok. In addition, in July of 2006, we acquired the trademark for *Royal Vodka*, which is produced in Poland and which we currently sell in Hungary through our Bols Hungary subsidiary. See "Risk Factors—We may not be able to protect our intellectual property rights".

#### ***Supply Arrangements***

##### ***General***

In addition to sales of products that we produce, our sales include products that we import on an exclusive basis and products which we purchase domestically.

##### ***Imported products***

We are the exclusive importers of numerous international brands and as such we have entered into import and distribution agreements with various producers and importers. With selected companies, we share in local marketing costs related to distributed products on either a defined amount or revenue percentage basis.

Our distribution agreements for imported spirits are generally for terms of one to five years with termination provisions permitting either party to terminate the agreements upon 90 days' prior written notice. Our suppliers for this category of products generally extend us credit for a period of 60 to 120 days. During the twelve months ended December 31, 2007 we purchased imported spirits representing approximately 6% of our net sales. Our key suppliers of imported spirits include: Lucas Bols B.V., CLS Remy Cointreau, Jim Beam Brands CO, William Grant & Sons, Stock Spa., Sutter Home, Borco-Marken GmbH & Co., Camus International Ltd., and Mast-Jaegermeister AG. Our distribution agreements with imported beer suppliers are generally for terms of at least two years with termination provisions permitting either party to terminate the agreements upon 45 days to 6 months' prior written notice. Our imported beer suppliers extend us credit for a period of 45 to 60 days. During the twelve months ended December 31, 2007 we purchased imported beers representing approximately 1% of our net sales. Our main suppliers of beers that we import include: Budweiser Budvar National Corporation, Diageo Global Supply Ireland Ltd., Grolsch International B.V., Eurocermex S.A., Fosters and Bitburger and Inbev



GmbH & Co. Our distribution agreements with wine suppliers are generally for terms of one to five years with termination provisions permitting either party to terminate the agreements upon three to six months' prior written notice. Our wine suppliers extend us credit for a period of 30 to 90 days. Almost all of our wine purchases are imported. During the twelve months ended December 31, 2007 we purchased wines representing approximately 5% of our net sales. Our main suppliers of wines include: Ernst & Julio Gallo Winery Europe, Vina Concha y Toro, Miguel Torres S.A., Trivento Bodegas y Vinedos S.A., Baron Philippe de Rothschild S.A., Sutter Home Winery Inc. and Ed. Kressmann & Cie.

*Domestic products (including purchases from third party importers of international alcoholic beverages)*

Our distribution agreements with domestic spirit and wine producers are generally for one year terms with automatic one-year renewal provisions. These agreements may be terminated for convenience by either party upon one month's prior written notice. Our spirits suppliers based in Poland generally extend us credit for a period of 50 to 70 days; however, we purchase a significant portion of our inventory on a cash on delivery (COD) basis because of the significant discount offered to us by them if we pay COD. Our main suppliers of domestically purchased spirits include Polmos Lublin S.A., Polmos Bielsko Biala, Brown-Forman sp. z o.o., Diageo and V&S Luksusowa Zielona Góra S.A.

Our distribution agreements with domestic beer suppliers generally have a minimum purchase requirement and are for terms of one to five years with automatic renewal provisions. These agreements also provide that the agreement may be terminated at the end of the applicable term upon prior written notice. Our domestic beer suppliers extend us credit for a period of 14 to 35 days. Our main suppliers of beer include: Grupa Zywiec S.A., Kompania Piwowarska S.A. and Carlsberg Polska S.A.

Based on these arrangements we buy alcoholic beverages produced or imported by third parties, with a view towards distribution to on-trade and off-trade customers. For this service we charge our customers a margin, which constitutes our gross profit. We typically bear the entire economic risk associated with selling third party products to our clients, but in certain situations, such as quality problems, lack of agreed-to marketing support, product recall or discontinuation, we reserve the right to return unsold products to their producers and importers.

We do not believe that we are dependant on any supplier in our distribution activities.

*Sales Arrangements for Products that We Produce and Distribute*

We sell beverages to several types of off-trade and on-trade customers. Off-trade establishments include modern trade networks (mainly hypermarkets, cash-and-carry outlets and discount stores), traditional trade (small and medium-size retail outlets and local independent supermarkets) and petrol stations, while on-trade customers include bars, nightclubs, hotels and restaurants, where products are consumed on the premises. Some of our beverages, especially vodkas produced by our Bols and Polmos Białystok subsidiaries, are sold to independent wholesale distributors (other than our group members) for further distribution.

Our sales arrangements differ depending on the nature and creditworthiness of our customers. In line with market practice, we tend not to enter into written delivery contracts with small accounts, as this would be impractical given their size (as these are usually independent stores) and buying patterns (as their orders in terms of volume and frequency reflect the individual preferences of their local clients).

We enter into framework supply contracts with larger customers, including modern trade networks, such as Jeronimo Martins Dystrybucja (Biedronka chain) or Makro Cash and Carry. In line with the market practice in Poland, these contracts are agreed usually for one year periods and are regularly renewed, usually in spring. Framework contracts stipulate delivery terms (which typically require us to deliver to the customer's premises), discounts from our normal price lists, as well as annual bonuses (which are typically in the form of an additional discount), the size of which depends on pre-agreed performance criteria, typically the volume of our merchandise



sold to a given customer during a particular period or, in the case of modern trade networks, to members of its capital group. We also extend trade credit to our modern trade customers, which allows them to pay after delivery, typically between 7 to 60 days, depending on customer's creditworthiness, its trading history with us and volumes purchased. In certain cases, customers have a choice of an early payment combined with an additional discount, or a delayed payment with no or with a smaller discount. Similar arrangements apply to wholesale distributors (other than our group members) of vodka produced by our Bols and Polmos Białystok subsidiaries. See also "Operations—Control of Bad Debts", above.

We do not believe that we are dependant on any customer in our sales activities.

### ***Export Agreements***

In 2007, we entered into a new distribution agreement with Marsalle Company in the United States, where *Zubrówka* has begun selling in major markets, including Chicago, New York City and Connecticut. During 2008, we anticipate rolling *Zubrówka* out in other major markets across the country. In 2006, we entered into a long-term distribution agreement with Pernod Ricard covering the key markets in more than 30 countries, including the Middle East (Israel), Pacific (Australia), Europe (Spain, Ireland), and France, where *Zubrówka* is rated as the number two imported premium vodka. We also entered into distribution agreements with strong distributors in the United Kingdom (Marblehead Brand Development Co.), and Japan (Lead Off Japan). We believe that these contracts will give us the opportunity to further develop the untapped potential of *Zubrówka* in key international vodka markets.

Our export team is currently in the process of working to expand our network of international distributors in a number of markets.

### **Legal and Arbitration Proceedings**

We are involved in legal proceedings arising in the normal course of our business, including opposition and cancellation proceedings with respect to trademarks similar to some of our brands, and other proceedings, both in the United States and elsewhere. During the last 12 months we were not a party to any material court or arbitration proceedings that we reasonably expect, either individually or in the aggregate, will result in a material adverse effect on our consolidated financial condition or results of operations. In addition we are not currently involved in or aware of any such pending or threatened proceedings.

### **Insurance**

We currently maintain property and casualty insurance in amounts we deem adequate.

### **Taxes**

We operate in the following tax jurisdictions: Poland, the United States, Hungary, and the Netherlands. In Poland and Hungary we are primarily subject to Value Added Tax (VAT), Corporate Income Tax, Payroll Taxes, Excise Taxes and Import Duties. In the United States we are primarily subject to Federal and Pennsylvania State Income Taxes, Delaware Franchise Tax and Local Municipal Taxes. We believe we are in material compliance with all relevant tax regulations.

### **Available Information**

We maintain an Internet website at <http://www.cedc.com>. Please note that our Internet address is included in this annual report as an inactive textual reference only. The information contained on our website is not incorporated by reference into this annual report and should not be considered part of this report.



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We file annual, quarterly and current reports, proxy statements and other information with the SEC. We make our annual report, on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and most of our other SEC filings available free of charge through our Internet website as soon as reasonably practicable after we electronically file these materials with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These filings are also available to the public over the Internet at the SEC's website at <http://www.sec.gov>. In addition, we provide paper copies of our SEC filings free of charge upon request. Please contact the Corporate Secretary of the Company at 1-610-660-7817 or at our address set forth on the cover page of this annual report.

We have adopted a code of ethics applicable to all of our officers, directors and employees, including our Chief Executive Officer and Chief Financial Officer (who is also our Principal Accounting Officer). The code of ethics is publicly available on the investor relations page of our website at <http://www.cedc.com>. We intend to disclose any amendment to, or waiver from, any provision in our code of ethics that applies to our Chief Executive Officer and Chief Financial Officer by posting such information in the investor relations section of our website at <http://www.cedc.com> and in any required SEC filings.

## Item 1A. Risks Relating To Our Business

### Risks Relating to our Business

*We operate in highly competitive industries, and competitive pressures could have a material adverse effect on our business.*

The alcoholic beverage distribution industry in Poland is intensely competitive. The principal competitive factors in that industry include product range, pricing, distribution capabilities and responsiveness to consumer preferences, with varying emphasis on these factors depending on the market and the product.

With respect to individual customers, we face significant competition from various regional distributors, who compete principally on price, in regions where our distribution centers and satellite branches are located. The effect of this competition could adversely affect our results of operations. The majority of alcohol sales in Poland are still made through traditional trade outlets, however, the hypermarket and supermarket chains continue to grow their share of the trade in Poland. Traditional trade outlets typically provide us with higher margins from sales as compared to hypermarkets and supermarket chains. There is a risk that the expansion of hypermarkets and supermarket chains will continue to occur in the future, thus reducing the margins that we may derive from sales to the traditional trade, where we as of December 31, 2007 distribute approximately 32% of our products. This margin reduction, however, will be partially offset by lower distribution costs due to bulk deliveries associated with sales to the modern trade.

We face competition from various producers in the vodka production industry. We compete with other alcoholic and nonalcoholic beverages for consumer purchases in general, as well as shelf space in retail stores, restaurant presence and distributor attention. In Poland, vodka production is dominated by five local companies that control approximately 81% of the market.

*Our results are linked to economic conditions and shifts in consumer preferences, including a reduction in the consumption of alcoholic beverages.*

Our results of operations are affected by the overall economic trends in Poland, the level of consumer spending, the rate of taxes levied on alcoholic beverages and consumer confidence in future economic conditions. In periods of economic slowdown, consumer purchase decisions may be increasingly affected by price considerations, thus creating negative pressure on the sales volume and margins of many of our products. Reduced consumer confidence and spending may result in reduced demand for our products and limitations on our ability to increase prices and finance marketing and promotional activities. A shift in consumer preferences or a reduction in sales of alcoholic beverages generally could have a material adverse effect on us.





***Loss of key management would threaten our ability to implement our business strategy.***

The management of future growth will require our ability to retain William Carey, our Chairman, Chief Executive Officer and President. William Carey, who founded our company, has been a key person in our ability to implement our business plan and grow our business. If William Carey were to leave us, our business could be materially adversely affected.

***Changes in the prices of supplies and raw materials could have a material adverse effect on our business.***

Price increases for raw materials used for vodka production may take place in the future, and our inability to pass on increases to our customers could reduce our margins and profits and have a material adverse effect on our business. In 2007, we completed construction of two rectification units, which came on line in the fourth quarter. In addition, we are currently constructing storage tanks that will store up to six months use of raw spirit. This will give us the flexibility to purchase raw spirit throughout the year at times when there are dips in raw spirit pricing. We expect these steps to help mitigate our exposure to price increases; however, we cannot assure you that shortages or increases in the prices of our supplies or raw materials will not have a material adverse effect on our financial condition and results of operations.

***We are exposed to exchange-rate and interest rate movements that could adversely affect our financial results and comparability of our results between financial periods.***

Since our functional currencies are the Polish zloty and the Hungarian Forint while our reporting currency is the U.S. dollar, the translation effects of fluctuations in exchange rates may materially impact our financial condition and net income and may affect the comparability of our results between financial periods.

In addition, our Senior Secured Notes are denominated in Euros, and movements in the Euro/Zloty exchange rate could increase the amount of cash, in Zloty, that must be generated in order to pay principal and interest on our Senior Secured Notes. Similarly, as a result of the interest rate swap, we effectively pay variable interest on our Senior Secured Notes. Consequently, we are exposed to changes in interest rates, on which our semi-annual coupons are calculated.

The impact of translation of our senior secured notes could have a materially adverse effect on our reported earnings. For example, a 1% change in the Euro/Zloty exchange rate as compared to the exchange rate applicable on December 31, 2007 would result in an unrealized exchange pre-tax gain or loss of approximately \$3.8 million per annum without considering any potential early repayments of the Senior Secured Notes.

***Weather conditions may have a material adverse effect on our sales or on the price of grain used to produce spirit***

We operate in an industry where performance is affected by the weather. Changes in weather conditions may result in lower consumption of vodka and other alcoholic beverages than in comparable periods. In particular, unusually cold spells in winter or high temperatures in the summer can result in temporary shifts in customer preferences and decrease demand for the alcoholic beverages we produce and distribute. Similar weather conditions in the future may have a material adverse effect on our sales which could affect our financial condition and results of operations. In addition, inclement weather may affect the availability of grain used to produce raw spirit, which could result in a rise in raw spirit pricing that could negatively affect margins and sales.

***We are subject to extensive government regulation; changes in or violations of law or regulations could materially adversely affect our business and profitability.***

Our business of producing, importing and distributing alcoholic beverages is subject to extensive regulation by national and local Polish governmental agencies and European Union authorities. These regulations and laws address such matters as licensing and permit requirements, competition and anti-trust matters, trade and pricing





practices, taxes, distribution methods and relationships, required labeling and packaging, advertising, sales promotion and relations with wholesalers and retailers. Also, new regulations or requirements or increases in excise taxes, customs duties, income taxes, or sales taxes could materially adversely affect our business, financial condition and results of operations.

In addition, we are subject to numerous environmental and occupational, health and safety laws and regulations in Poland. We may also incur significant costs to maintain compliance with evolving environmental and occupational, health and safety requirements, to comply with more stringent enforcement of existing applicable requirements or to defend against challenges or investigations, even those without merit. Future legal or regulatory challenges to the industry in which we operate or to us or our business practices and arrangements could give rise to liability and fines, or cause us to change our practices or arrangements, which could have a material adverse effect on us, our revenues and our profitability.

Governmental regulation and supervision as well as future changes in laws, regulations or government policy (or in the interpretation of existing laws or regulations) that affect us, our competitors or our industry generally strongly influence our viability and how we operate our business. Complying with existing regulations is burdensome, and future changes may increase our operational and administrative expenses and limit our revenues. For example, we are currently required to have permits to produce, to import products, maintain and operate our warehouses, and distribute our products to wholesalers. Many of these permits, such as our general permit for wholesale trade, must be renewed when they expire. Although we believe that our permits will be renewed upon their expiration, there is no guarantee that such will be the case. Revocation or non-renewal of permits that are material to our business could have a material adverse affect on our business. Additionally, our permits may be revoked prior to their expiration date due to nonpayment of taxes or violation of health requirements. Therefore, our business would be materially and adversely affected if there were any adverse changes in relevant laws or regulations or in their interpretation or enforcement. Our ability to introduce new products and services may also be affected if we cannot predict how existing or future laws, regulations or policies would apply to such products or service.

***We may not be able to protect our intellectual property rights.***

We own and license trademarks (for, among other things, our product names and packaging) and other intellectual property rights that are important to our business and competitive position, and we endeavor to protect them. However, we cannot assure you that the steps we have taken or will take will be sufficient to protect our intellectual property rights or to prevent others from seeking to invalidate our trademarks or block sales of our products as a violation of the trademarks and intellectual property rights of others. In addition, we cannot assure you that third parties will not infringe on or misappropriate our rights, imitate our products, or assert rights in, or ownership of, trademarks and other intellectual property rights of ours or in marks that are similar to ours or marks that we license and/or market. In some cases, there may be trademark owners who have prior rights to our marks or to similar marks. We are currently involved in opposition and cancellation proceedings with respect to marks similar to some of our brands and other proceedings, both in the United States and elsewhere. If we are unable to protect our intellectual property rights against infringement or misappropriation, or if others assert rights in or seek to invalidate our intellectual property rights, this could materially harm our future financial results and our ability to develop our business.

***Our import contracts may be terminated***

As a leading importer of major international brands of alcoholic beverages in Poland and Hungary, we have been working with the same suppliers for many years and either have verbal understandings or written distribution agreements with them. Where a written agreement is in place, it is usually valid for between one and five years and is terminable by either party on three to six months' notice. However, our ability to continue to distribute imported products on an exclusive basis depends on factors which are out of our control, such as ongoing consolidation in the wine, beer and spirit industry worldwide, as a result of which producers decide from time to time to change their distribution channels, including in the markets in which we operate.



Although we believe we are currently in compliance with the terms and conditions of our import and distribution agreements, there is no assurance that all our import agreements will continue to be renewed on regular basis, or that, if they are terminated, we will be able to replace them with alternative arrangements with other suppliers.

***Our results of operations and financial condition may be adversely affected if we undertake acquisitions of businesses that do not perform as we expect or that are difficult for us to integrate.***

We expect to continue to implement our growth strategy, in part, by acquiring companies. At any particular time, we may be in various stages of assessment, discussion and negotiation with regard to one or more potential acquisitions, not all of which will be consummated. We make public disclosure of pending and completed acquisitions when appropriate and required by applicable securities laws and regulations.

Acquisitions involve numerous risks and uncertainties. If we complete one or more acquisitions, our results of operations and financial condition may be affected by a number of factors, including: the failure of the acquired businesses to achieve the results we have projected in either the near or long term; the assumption of unknown liabilities; the fair value of assets acquired and liabilities assumed; the difficulties of imposing adequate financial and operating controls on the acquired companies and their management and the potential liabilities that might arise pending the imposition of adequate controls; the difficulties in integration of the operations, technologies, services and products of the acquired companies; and the failure to achieve the strategic objectives of these acquisitions.

Acquisitions in rapidly developing economies, such as Russia (where we recently announced our first acquisition), involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks, and the particular economic, political, and regulatory risks associated with specific countries.

Future acquisitions or mergers may result in a need to issue additional equity securities, spend our cash, or incur debt, liabilities, or amortization expenses related to intangible assets, any of which could reduce our profitability and harm our business.

### **Risks Relating to our Indebtedness**

***We require a significant amount of cash to make payments on our senior secured notes and to service our other debt.***

Our ability to finance our debt depends on our future operating performance and ability to generate sufficient cash. This depends, to some extent, on general economic, financial, competitive, market, legislative, regulatory and other factors, some of which are beyond our control, as well as the other factors discussed in these "Risk Factors."

Historically, we met our debt service and other cash requirements with cash flows from operations and our existing revolving credit facilities. As a result of certain acquisitions and related financing transactions, however, our debt service requirements have increased significantly. We cannot assure you that our business will generate sufficient cash flows from operating activities, or that future debt and equity financing will be available to us in an amount sufficient to enable us to pay our debts when due, including our senior secured notes, or to fund our other financing needs .

Our indebtedness under the Senior Secured Notes as of December 31, 2007 amounted to \$344.3 million, and additionally \$15.8 million of accrued interest.



If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including our senior secured notes, on or before maturity.

The above factors all contain an inherent risk regarding our ability to execute them. Additionally, our senior secured notes and covenants made in connection therewith may limit our ability to borrow additional funds or increase the cost of any such borrowing.

***We are subject to restrictive debt covenants.***

The indenture governing our senior secured notes contains, and other financing arrangements we enter into in the future may contain, provisions which limit our ability and the ability of our subsidiaries to enter into certain transactions, including the ability to make certain payments, including dividends or other cash distributions; incur or guarantee additional indebtedness and issue preferred stock; make certain investments; prepay or redeem subordinated debt or equity; create certain liens or enter into sale and leaseback transactions; engage in certain transactions with affiliates; sell assets or consolidate or merge with or into other companies; issue or sell share capital of certain subsidiaries; and enter into other lines of business.

**Risks Relating to Ownership of our Common Stock**

***Future sales of common stock, or the perception of such future sales, by some of our existing stockholders could cause our stock price to decline.***

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that these sales may occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell shares in the future at a time and at a price that we deem appropriate.

As a result of our acquisition of Botapol Holding B.V., which we completed on August 17, 2005, Takirra Investment Corporation N.V. as of December 31, 2007 owned a total of 2,537,128 shares of our common stock. Takirra Investment Corporation N.V. has the right to cause us to register resale of the shares of our common stock that it owns or to include its shares in future registration statements filed by us with the SEC. We have filed a registration statement relating to the shares with the SEC. Pursuant to that registration statement, Takirra Investment Corporation N.V. will be able to sell its shares to the public in the United States. If Takirra Investment Corporation N.V. were to sell a large number of its shares in a short period of time, the market price of our common stock could decline. In connection with any sale of its shares, Takirra Investment Corporation N.V. also may choose not to maintain a director on our board of directors, which is its contractual right for so long as it holds at least 50% of the shares issued to them in the Bols Acquisition.

***Enforcing legal liability against us and our directors and officers might be difficult.***

We are organized under the laws of the State of Delaware of the United States. Therefore, investors are able to effect service of process in the United States upon us and may be able to effect service of process upon our directors and executive officers. We are a holding company, however, and all of our operating assets are located in Poland and Hungary. Further, most of our directors and executive officers, and those of most of our subsidiaries, are non-residents of the United States and our assets and the assets of our directors and executive officers are located outside the United States. As a result, you may not be able to enforce against our assets (or



those of certain of our directors or executive officers) judgments of United States courts predicated upon the civil liability provisions of United States laws, including federal securities laws of the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may not be enforceable in Poland.

## Item 2. Properties.

### Our existing properties

*Headquarters, Sales Offices and Warehouses.* We have entered into leases for our Warsaw headquarters and most of our other 17 distribution centers and 87 satellite branches. Our Polish headquarter is located at ul. Bobrowiecka 6, 00-728 Warsaw. Our distribution centers are located in: Gdansk, Warszawa, Olsztyn, Zielona Góra, Białystok (two centers), Torun, Stargard Szczecinski, Przeworsk, Zabkowice Slaskie, Chrzanów, Łódź, Konin, Łomża, Mosina and Minsk Mazowiecki. The amount of warehouse space leased for each distribution center averages 2,713 square meters. The amount of office and storage space leased for each satellite branch averages 368 square meters. The Warsaw lease expires on May 1, 2010, and neither party may terminate the lease except for material breaches. The Warsaw facility is approximately 9,765 square meters of warehouse and 3,457 square meters of office space which is currently used for our headquarters. We believe the warehouse facility has sufficient space to permit us to expand for the next two to three years without any further significant capital expenditure.

*Retail Outlets.* We have entered into a long term or indefinite term lease agreement with each of our six retail outlets. We have obtained agreements from the landlords to waive their rights to terminate the leases for a period of three years, provided that we are performing our obligations under these leases.

*Production and rectification facilities.* Our production facilities comprise two plants with one located in Białystok, Poland for Polmos Białystok and the other one located in Oborniki Wielkopolskie, Poland for Bols. The Białystok facility is located on 78,665 square meters of land which is leased from the government on a perpetual usufruct basis. The production capacity of our plant in Białystok is approximately 24 million liters of 100% alcohol per year and currently, we use approximately 75% to 85% of its production capacity. In the Polmos Białystok distillery we produce *Absolwent* and its taste variations, *Batory*, *Białowieska*, *Cytrynówka*, *Czekoladowa*, *Kompleet*, *Vodka*, *Liberty Blue*, *Lider*, *Ludowa*, *Nalewka Wisniowa*, *Nalewka Miodowa* and *Palace Vodka*, *Winiak Białostocki*, *Winiak Pałacowy*, *Wódka Imbirowa*, *Zubrówka*. The plot on which the Białystok facility is located is unencumbered.

The Bols facility is located on 80,519 square meters of which 58,103 square meters are owned by us and 22,416 square meters are leased from the government on a perpetual usufruct basis. The production capacity of our plant in Oborniki Wielkopolskie is 34.2 million liters of 100% alcohol per year. Currently we use about 50% to 60% of the plant's production capacity. In the Bols distillery we produce *Bols Excellent*, *Bols Vodka* and its taste variations, *Soplica*, *Soplica Szlachetna Polska*, *Soplica Tradycyjna Polska*, *Soplica Wisniowa Polska*, *Soplica Staropolska*, *Boss*, *Slaska*, *Niagara* and *Royal Vodka*. The plot on which the Bols facility is located in unencumbered.

*Delivery trucks.* Our fleet of vehicles consists of 1,206 vehicles (including delivery trucks), 1,008 of which are owned by us and our subsidiaries and the remainder of which are leased. As of December 31, 2007, their aggregate book value was \$10.4 million.

### Research and Development, Intellectual Property, Patents and Trademarks

We do not have a separate research and development unit. Our activity in this field is generally related to improvements in packaging and extensions to our existing brand portfolio, such as introduction of flavored varieties of our main clear vodka brands—*Bols*, *Absolwent* and *Soplica*—or revised production processes, leading to improved taste.



**Item 3. Legal Proceedings.**

From time to time we are involved in legal proceedings arising in the normal course of our business, including opposition and cancellation proceedings with respect to trademarks similar to some of our other brands, and other proceedings, both in the United States and elsewhere. We are not currently involved in or aware of any pending or threatened proceedings that we reasonably expect, either individually or in the aggregate, will result in a material adverse effect on our consolidated financial condition or results of operations.

**Item 4. Submission of Matters to a Vote of Security Holders.**

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2007.



## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

#### Market Information

The Company's common stock has been traded on the NASDAQ National Market, and its successor, the NASDAQ Global Select Market, under the symbol "CEDC" since June 1999. Prior thereto it traded on the NASDAQ Small Cap Market since our initial public offering in July 1998. The following table sets forth the high and low bid prices for the common stock, as reported on the NASDAQ Global Select Market, for each of the Company's fiscal quarters in 2006 and 2007. These prices represent inter-dealer quotations, which do not include retail mark-ups, mark-downs or commissions and do not necessarily represent actual transactions. The prices for 2006 and 2007 have also been adjusted to reflect the impact of the 3 for 2 stock split in June 2006.

	High	Low
<b>2006</b>		
First Quarter .....	\$28.62	\$24.58
Second Quarter .....	27.79	21.35
Third Quarter .....	25.69	21.02
Fourth Quarter .....	30.69	22.98
<b>2007</b>		
First Quarter .....	\$30.59	\$24.75
Second Quarter .....	36.49	29.03
Third Quarter .....	50.80	34.42
Fourth Quarter .....	60.82	43.94

On February 27, 2008, the last reported sales price of the Common Stock was \$62.36 per share.

#### Holders

As of February 25, 2008, there were approximately 25,039 beneficial owners and 52 shareholders of record of common stock.

#### Dividends

CEDC has never declared or paid any dividends on its capital stock. CEDC currently intends to retain future earnings for use in the operation and expansion of its business. Future dividends, if any, will be subject to approval by CEDC's board of directors and will depend upon, among other things, the results of the Company's operations, capital requirements, surplus, general financial condition and contractual restrictions and such other factors as the board of directors may deem relevant. In addition, the indenture for the Company's outstanding Senior Secured Notes may limit the payment of cash dividends on its common stock to amounts calculated in accordance with a formula based upon our net income and other factors.





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**Equity Compensation Plans**

The following table provides information with respect to our equity compensation plans as of December 31, 2007:

**Equity Compensation Plan Information**

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders .....	1,288,867	\$22.02	1,397,333
Equity Compensation Plans Not Approved by Security Holders ...	—	—	—
Total .....	1,288,867	\$22.02	1,397,333

**Item 6. SELECTED FINANCIAL DATA**

The following table sets forth selected consolidated financial data for the periods indicated and should be read in conjunction with and is qualified by reference to “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, the consolidated financial statements, the notes thereto and the other financial data contained in Items 7 and 8 of this report on Form 10-K.

**Income Statement Data:**

	Year ended December 31,				
	2003	2004	2005	2006	2007
Net sales .....	\$429,118	\$580,744	\$ 749,415	\$ 944,108	\$1,189,822
Cost of goods sold .....	372,638	506,413	627,368	745,721	941,060
Gross profit .....	56,480	74,331	122,047	198,387	248,762
Sales, general and administrative expenses ....	34,313	45,946	70,404	106,805	130,677
Operating income .....	22,167	28,385	51,643	91,582	118,085
Non-operating income / (expense), net					
Interest income / (expense), net .....	(1,500)	(2,115)	(15,828)	(31,750)	(35,829)
Other financial income / (expense), net .....	(92)	(19)	(7,678)	17,212	13,594
Other income / (expense), net .....	(59)	193	(262)	1,119	(1,770)
Income before income taxes .....	20,516	26,444	27,875	78,163	94,080
Income taxes .....	(5,441)	(4,614)	(5,346)	(13,986)	(15,910)
Minority interests .....	—	—	2,261	8,727	1,068
Net income .....	\$ 15,075	\$ 21,830	\$ 20,268	\$ 55,450	\$ 77,102
Net income per common share, basic .....	\$ 0.65	\$ 0.89	\$ 0.72	\$ 1.55	\$ 1.93
Net income per common share, diluted .....	\$ 0.64	\$ 0.87	\$ 0.70	\$ 1.53	\$ 1.91
Average number of outstanding shares of common stock at year end .....	23,621	24,462	28,344	35,799	39,871

**Balance Sheet Data:**

	2003	2004	2005	2006	2007
Cash and cash equivalents .....	\$ 6,229	\$ 10,491	\$ 60,745	\$ 159,362	\$ 87,867
Working capital .....	35,016	50,910	85,950	182,268	170,913
Total assets .....	187,470	291,704	1,084,472	1,326,033	1,782,168
Long-term debt and capital lease obligations, less current portion .....	1,670	4,013	369,039	394,564	469,958
Stockholders’ equity .....	83,054	120,316	374,942	520,973	815,436



**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

The following analysis should be read in conjunction with the Consolidated Financial Statements and the notes thereto appearing elsewhere in this report.

**Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 Regarding Forward-Looking Information.**

This report contains forward-looking statements, which provide our current expectations or forecasts of future events. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "intends," "may," "will" or "should" or, in each case, their negative, or other variations or comparable terminology, but the absence of these words does not necessarily mean that a statement is not forward-looking. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include, without limitation:

- information concerning possible or assumed future results of operations, trends in financial results and business plans, including those relating to earnings growth and revenue growth, liquidity, prospects, strategies and the industry in which the Company and its subsidiaries, including Bols, and Polmos Bialystok operate, as well as the integration of Polmos Bialystok and the effect of such acquisitions on the Company;
- statements about the level of our costs and operating expenses relative to the Company revenues, and about the expected composition of the Company's revenues;
- statements about integration of the Company's acquisitions;
- information about the impact of Polish regulations on the Company business;
- other statements about the Company's plans, objectives, expectations and intentions; and
- other statements that are not historical facts.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, the development of the industry in which we operate, and the effects of the acquisitions of Bols and Bialystok on us may differ materially from those anticipated in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

We urge you to read and carefully consider the items of the other reports that we have filed with or furnished to the SEC for a more complete discussion of the factors and risks that could affect our future performance and the industry in which we operate, including the risk factors described elsewhere in this Annual Report on Form 10-K. In light of these risks, uncertainties and assumptions, the forward-looking events described in this report may not occur as described, or at all.

You should not unduly rely on these forward-looking statements, because they reflect our judgment only as of the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement to reflect circumstances or events after the date of this report, or to reflect on the occurrence of unanticipated events. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this report.



The following discussion and analysis provides information which management believes is relevant to the reader's assessment and understanding of the Company's results of operations and financial condition and should be read in conjunction with the Consolidated Financial Statements and the notes thereto found elsewhere in this report.

## Overview

We are the largest vodka producer by value and volume in Central Europe and a leading distributor and importer of alcoholic beverages in Poland and in Hungary. Our business involves the distribution of products that we produce from our two distilleries, importation on an exclusive basis of many well known international beers, wines and spirits brands and wholesaling of a range of products from local and international drinks companies operating in Poland and Hungary.

During 2007, we have continued to develop our solid footprint in Poland and Hungary where we produced approximately 9.3 million cases of vodka in 2007. In addition, in July 2007, we signed a letter of intent to acquire the *Parliament vodka* business in Russia, marking our first step of expansion into Russia.

In terms of business development in Poland we entered into a number of new agreements that have resulted in positive developments for our business. We started 2007 by signing an exclusive import agreement in January with Gruppo Campari. As a result of this agreement, we are now the exclusive importer and distributor of Campari, Cinzano, Skyy Vodka and other Campari products in Poland. In July we completed the acquisition of PHS, a Polish distribution company, which had 2006 annualized revenues of approximately \$60 million. In addition, we signed an exclusive contract with the Orlen Company, which runs the largest petrol station chain in Poland. Orlen has over 1,000 stores located in their petrol stations that sell alcoholic beverages.

In 2007, our dedicated sales force of over 700 salesmen, including over 30 dedicated on-premise salesmen, worked diligently to leverage our extensive portfolio, including our must-have vodka brands and our exclusive premium import portfolio of wines and spirits. As a result, sales of two of our key core Polish vodka brands, *Bols* and *Soplica*, grew by 19% and 22% respectively in volume terms and sales of our exclusive import portfolio grew approximately 46% over 2006 sales in value terms. Included in our exclusive import growth was the success of *Carlo Rossi*, which became the number one wine sold in Poland by value. 2007 also saw the addition of our new flavored vodka brand for the Polish market, *Zlota Gorzka*, as well as numerous packaging changes for our existing brand, including a domestic and international re-launch of *Zubrówka*.

On the investment front, during the last quarter of 2007, we completed our investment in our two new spirit rectification facilities at our Polmos Bialystok and Bols facilities. The investment of approximately \$16 million will not only allow us to reduce our cost of spirit but also ensure that we include the highest quality of spirit in our products.

On the financial side, we had two bond rating upgrades. In May, Moody's upgraded our Senior Secured Notes from B2 to B1 based on what Moody's said was our strong operating performance and ability to generate strong cash flow. In September, S&P upgraded our Senior Secured Notes from B to B+ based on what S&P said was improved profitability of operations and our consolidated position as a distributor in Poland. We also completed an equity offering in February, the proceeds from which were used to finance a claw back of 10% of our existing bonds and finance a tender for most of the remaining shares of Polmos Bialystok.

## *Effect of Exchange Rate and Interest Rate Fluctuations*

As a result of the issuance of the Company's €260 million Senior Secured Notes due 2012, we are exposed to foreign exchange movements. Movements in the EUR-Polish Zloty exchange rate will require us to revalue our liability on the Senior Secured Notes accordingly, the impact of which will be reflected in the results of the



Company's operations. In order to manage the cash flow impact of foreign exchange changes, the Company has entered into certain hedge agreements. As of December 31, 2007, the Company had outstanding a hedge contract for a seven year interest rate swap agreement. The swap agreement exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin.

Because the Company's functional currency is primarily the Polish Zloty but its reporting currency is the U.S. Dollar, the translation effects of fluctuations in the exchange rate have impacted the Company's financial condition and results of operations and have affected the comparability of our results between financial periods. The average Zloty/Dollar exchange rate used to create our income statement appreciated by approximately 10%. The actual year end Zloty/Dollar exchange rate used to create our balance sheet appreciated by approximately 16%.

**Twelve months ended December 31, 2007 compared to twelve months ended December 31, 2006**

A summary of the Company's operating performance (expressed in thousands except per share amounts) is presented below.

	Twelve months ended	
	December 31, 2007	December 31, 2006
<b>Sales</b> .....	<b>\$1,483,344</b>	<b>\$1,193,248</b>
Excise taxes .....	(293,522)	(249,140)
<b>Net Sales</b> .....	<b>1,189,822</b>	<b>944,108</b>
Cost of goods sold .....	941,060	745,721
<b>Gross Profit</b> .....	<b>248,762</b>	<b>198,387</b>
Operating expenses .....	130,677	106,805
<b>Operating Income</b> .....	<b>118,085</b>	<b>91,582</b>
Non operating income / (expense), net		
Interest (expense), net .....	(35,829)	(31,750)
Other financial income, net .....	13,594	17,212
Other non operating income / (expense), net .....	(1,770)	1,119
<b>Income before taxes</b> .....	<b>94,080</b>	<b>78,163</b>
Income tax expense .....	15,910	13,986
Minority interests .....	1,068	8,727
<b>Net income</b> .....	<b>\$ 77,102</b>	<b>\$ 55,450</b>
<b>Net income per share of common stock, basic</b> .....	<b>\$ 1.93</b>	<b>\$ 1.55</b>
<b>Net income per share of common stock, diluted</b> .....	<b>\$ 1.91</b>	<b>\$ 1.53</b>

**Net Sales**

Net sales represent total sales net of all customer rebates, excise tax on production and value added tax. Total net sales increased by approximately 26.0%, or \$245.7 million, from \$944.1 million for the twelve months ended December 31, 2006 to \$1,189.8 million for the twelve months ended December 31, 2007. This increase in sales is due to the following factors:

Net Sales for twelve months ended December 31, 2006 .....	\$ 944,108
Increase from acquisitions .....	53,910
Existing business sales growth .....	69,756
Impact of foreign exchange rates .....	122,048
Net sales for twelve months ended December 31, 2007 .....	\$1,189,822



Factors impacting our existing business sales for the twelve months ending December 31, 2007 include the growth of our key vodka brands, with *Bols Vodka*, our flagship premium vodka, growing by 19% in volume terms and *Soplica* by 22% in volume terms as compared to the twelve months ending December 31, 2006. In addition to the growth of our own brands, our sales of imports and other third party brands increased due in part to new contracts, including the distribution contract with Orlen, the largest gas station chain in Poland, as well as market share gains taken from other distributors in Poland. Sales of our exclusive import brands grew by 46% in value terms for the twelve months ending December 31, 2007 as compared to the same period in 2006.

Based upon average exchange rates for the twelve months ended December 31, 2007 and 2006, the Polish Zloty appreciated by approximately 10%. This resulted in an increase of \$122.0 million of sales in U.S. Dollars.

### Gross Profit

Total gross profit increased by approximately 25.4%, or \$50.4 million, to \$248.8 million for the twelve months ended December 31, 2007, from \$198.4 million for the twelve months ended December 31, 2006, reflecting sales growth for the factors noted above in the twelve months ended December 31, 2007. Gross margin remained constant at 21% for the twelve months ended December 31, 2006 and 2007. Factors impacting our margins include the consolidation of PHS from the third quarter of 2007, which operates primarily as a wholesaler with lower margins, as well as higher growth in our distribution business. The impact of both of these items has offset higher margin growth from increased sales of our own brands.

### Operating Expenses

Operating expenses consist of selling, general and administrative, or "S,G&A" expenses, advertising expenses, non-production depreciation and amortization, and provision for bad debt. Total operating expenses increased by approximately 22.4%, or \$23.9 million, from \$106.8 million for the twelve months ended December 31, 2006 to \$130.7 million for the twelve months ended December 31, 2007. Approximately \$3.4 million of this increase resulted primarily from the effects of the acquisition of Bols Hungary in August 2006, \$3.0 million resulted from the effects of the acquisition of PHS in July 2007 and the remainder of the increase resulted primarily from the growth of the business and the impact of foreign exchange expenses, as detailed below.

Operating expenses for twelve months ended December 31, 2006 .....	\$ 106,805
Increase from acquisitions .....	6,599
Increase from existing business growth .....	3,684
Impact of foreign exchange rates .....	13,589
Operating expenses for twelve months ended December 31, 2007 .....	\$ 130,677

The table below sets forth the items of operating expenses.

	Twelve Months Ended December 31,	
	2007	2006
	(\$ in thousands)	
S,G&A .....	\$106,401	\$ 86,421
Marketing .....	16,937	14,078
Depreciation and amortization .....	7,339	6,306
Total operating expense .....	\$130,677	\$106,805

S,G&A increased by approximately 23.1%, or \$20.0 million, from \$86.4 million for the twelve months ended December 31, 2006 to \$106.4 million for the twelve months ended December 31, 2007. Approximately \$3.1 million of this increase resulted primarily from the effects of the Bols Hungary acquisition in August 2006, \$2.9 million resulted from the effects of the PHS acquisition in July 2007 and the remainder of the increase resulted primarily from the growth of the business and the appreciation of the Polish Zloty against the U.S. Dollar. As a percent of sales, S,G&A has decreased from 9.2% of net sales for the twelve months ended



December 31, 2006 to 8.9% of net sales for the twelve months ended December 31, 2007, primarily due to improved costs management.

Depreciation and amortization increased by approximately 15.9%, or \$1.0 million, from \$6.3 million for the twelve months ended December 31, 2006 to \$7.3 million for the twelve months ended December 31, 2007. This increase resulted primarily from our existing business growth.

### **Operating Income**

Total operating income increased by approximately 28.9%, or \$26.5 million, from \$91.6 million for the twelve months ended December 31, 2006 to \$118.1 million for the twelve months ended December 31, 2007. This increase resulted primarily from the factors described under "Net Sales" above. Operating margin increased from 9.7% of net sales for the twelve months ended December 31, 2006 to 9.9% of net sales for the twelve months ended December 31, 2007. The increase in operating margin is due primarily to improved costs management.

### **Non Operating Income and Expenses**

Total interest expense increased by approximately 12.6%, or \$4.0 million, from \$31.8 million for the twelve months ended December 31, 2006 to \$35.8 million for the twelve months ended December 31, 2007. This increase resulted from a combination of additional borrowings for the purchase of Polmos Bialystok shares completed in June 2007, increased interest rates in 2007 as compared to 2006, and a strong Euro as compared to the U.S. dollar.

In order to reduce the Company's overall cost of borrowings, in 2007 the Company completed a redemption of a portion of its Senior Secured Notes. In connection with this redemption, the Company incurred one-off early debt retirement costs of approximately \$6.9 million relating to the 8% premium for early debt redemption and \$4.9 million of written off financing costs and hedges associated with the retired debt. For detailed information regarding these costs please refer to Note 14 to our consolidated financial statements. In addition, the Company recognized \$23.9 million of foreign exchange rate gains related to the impact of movements in exchange rates on our Senior Secured Notes.

Included in other financial income were foreign exchange gains from the revaluation of our Senior Secured Notes of \$23.9 million for the twelve months ending December 31, 2007, as discussed above, and \$3.3 million for the twelve months ending December 31, 2006. These gains are a result of the revaluation of our Euro Senior Secured Notes to Polish Zloties.

### **Income Tax**

In August 2007, the Company received confirmation from the Polish tax office regarding a change in tax treatment for unrealized gains. As such the Company recognized a one time increase in a deferred tax asset during the period. Partially offsetting this was an increase in the provision for unutilized tax loss carry forwards in Poland, which resulted in a reduction of a deferred tax asset. The net difference was fully recognized in the current year resulting in an effective tax rate of 16.9% for the twelve months ended December 31, 2007 as compared to a historic rate of 18%-19%.





### Twelve months ended December 31, 2006 compared to twelve months ended December 31, 2005

A summary of the Company's operating performance (expressed in thousands except per share amounts) is presented below.

	Twelve Months Ended December 31	
	2006	2005
Sales .....	<b>\$1,193,248</b>	<b>\$828,918</b>
Excise taxes .....	(249,140)	(79,503)
Net Sales .....	<b>944,108</b>	<b>749,415</b>
Cost of goods sold .....	745,721	627,368
<b>Gross Profit</b> .....	<b>198,387</b>	<b>122,047</b>
Operating expenses .....	106,805	70,404
<b>Operating Income</b> .....	<b>91,582</b>	<b>51,643</b>
Non operating income / (expense), net		
Interest income / (expense), net .....	(31,750)	(15,828)
Other financial income / (expense), net .....	17,212	(7,678)
Other non operating income / (expense), net .....	1,119	(262)
<b>Income before taxes</b> .....	<b>78,163</b>	<b>27,875</b>
Income tax expense .....	13,986	5,346
Minority interests .....	8,727	2,261
<b>Net income</b> .....	<b>\$ 55,450</b>	<b>\$ 20,268</b>
<b>Net income per share of common stock, basic</b> .....	<b>\$ 1.55</b>	<b>\$ 0.72</b>
<b>Net income per share of common stock, diluted</b> .....	<b>\$ 1.53</b>	<b>\$ 0.70</b>

### Net Sales

Net sales represent total sales net of all customer rebates, excise tax on production and value added tax. Total net sales increased by approximately 26.0%, or \$194.7 million, from \$749.4 million for the twelve months ended December 31, 2005 to \$944.1 million for the twelve months ended December 31, 2006. This increase in sales is due to the following factors:

Net Sales for twelve months ended December 31, 2005 .....	\$ 749,415
Increase from acquisitions .....	127,108
Existing business sales growth .....	22,835
Impact of foreign exchange rates .....	44,750
Net sales for twelve months ended December 31, 2006 .....	\$ 944,108

Factors impacting our sales for 2006 include:

- Acquisitions which provided an additional \$127.1 million of sales for the twelve months ended December 31, 2006.
- Liter sales of the key brands we produce (Absolwent, Bols, Sopolica and Zubrówka) grew by 4% in 2006 as compared to 2005.
- Increased sales of imported products. Growth of imports increased by approximately 13.3%, or \$6.1 million, from \$45.7 million for the twelve months ended December 31, 2005 to \$51.8 million for the twelve months ended December 31, 2006.
- The strength of the Polish Zloty versus the U.S. Dollar for the twelve months ended December 31, 2006 as compared to the strength of the Polish Zloty versus the U.S. Dollar for the twelve months ended December 31, 2005. Based upon average exchange rates for the twelve months ended December 31, 2006 and 2005, the Polish Zloty appreciated by approximately 4%. This resulted in an increase of \$44.8 million of sales in U.S. Dollar terms.



As the economies in Poland and Hungary continue to develop, the demand for imported products has also increased as consumer trade up in consumption habits. As such sales of these high margin import products are one of the key strategies of the Company. Sales of exclusive imported beers, spirits and wines for the twelve months ended December 31, 2006 and 2005 are highlighted below on a pro forma basis. This table includes the full year of sales of imports from the Bols Poland and Hungary businesses for the twelve months ended December 31, 2006 and 2005, on a pro-forma basis and as reported on an organic basis.

**Twelve Months Ended December 31,  
(Proforma Sales in \$000's)**

	<u>2006</u>	<u>2005</u>	<u>%</u>
Imported Beers .....	6,070	6,117	(0.8)
Imported Spirits .....	53,921	41,058	31.3
Imported Wines .....	37,746	29,278	28.9
<b>Total Imported Product on a pro-forma basis</b> .....	<b>97,737</b>	<b>76,453</b>	<b>27.8</b>
<b>Less: Import sales from acquired entities</b> .....	<b>(45,918)</b>	<b>(30,718)</b>	<b>—</b>
<b>Total Organic Imported Sales</b> .....	<b>51,819</b>	<b>45,735</b>	<b>13.3</b>

**Gross Profit**

Total gross profit increased by approximately 62.6%, or \$76.4 million, to \$198.4 million for the twelve months ended December 31, 2006, from \$122.0 million for the twelve months ended December 31, 2005, reflecting the effect of the acquisitions of Bols, Polmos Bialystok and Bols Hungary and sales growth in the twelve months ended December 31, 2006. Gross margin increased from 16.3% of net sales for the twelve months ended December 31, 2005 to 21.0% of net sales for the twelve months ended December 31, 2006. This increase in gross margin resulted from the changes in sales mix, including growth in the sales of exclusive imported products and acquisitions. Gross margins on products produced by the Company are higher than gross margins on products supplied by third-party producers.

As part of our continued strategy to drive sales of our own brands we have reduced our portfolio of lower margin SKU's by which in reduced our sales by approximately \$33 million for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005, and replaced a significant portion of these sales with higher margin SKUs of products which we produce and import. This has contributed to a margin improvement for the six and twelve months ended December 31, 2006 as compared to the six months ended June 30, 2006 and the twelve months ended December 31, 2005. Our gross margins were also enhanced by our new trade terms from our new export contracts which took effect in the third quarter of 2006. Offsetting these gains in margins as noted above was the impact of higher spirit pricing, which reduced gross margins by approximately \$7.5 million during the 2<sup>nd</sup> half of 2006 as compared to the first half.

**Operating Expenses**

Operating expenses consist of selling, general and administrative, or "S,G&A" expenses, advertising expenses, non-production depreciation and amortization, and provision for bad debt. Total operating expenses increased by approximately 51.7%, or \$36.4 million, from \$70.4 million for the twelve months ended December 31, 2005 to \$106.8 million for the twelve months ended December 31, 2006. Approximately \$25.9 million of this increase resulted primarily from the effects of acquisitions in 2006 and the remainder of the increase resulted primarily from the growth of the business and the impact of foreign exchange expenses.

Operating expenses for twelve months ended December 31, 2005 .....	\$ 70,404
Increase from acquisitions .....	25,935
Existing business growth .....	4,624
Impact of foreign exchange rates .....	5,842
Operating expenses for twelve months ended December 31, 2006 .....	\$106,805



Included in the existing business growth were the costs related to the expensing of employee stock options which began in 2006 following the implementation of FAS123(R), total costs related to the expensing of options was \$1.9 million for the twelve months ending December 31, 2006.

The table below sets forth the items of operating expenses.

<u>Twelve Months Ended December 31,</u>	<u>2006</u>	<u>2005</u>
	(\$ in thousands)	
S,G&A .....	\$ 85,422	\$55,925
Marketing. ....	14,078	9,082
Depreciation and amortization .....	6,306	4,413
Bad debt provision .....	999	984
	<u>\$106,805</u>	<u>\$70,404</u>

S,G&A increased by approximately 52.8%, or \$29.5 million, from \$55.9 million for the twelve months ended December 31, 2005 to \$85.4 million for the twelve months ended December 31, 2006. Approximately \$19.5 million of this increase resulted primarily from the effects of acquisitions in 2006 and the remainder of the increase resulted primarily from the growth of the business and the 4% appreciation of the Zloty against the Dollar. As a percent of sales, S,G&A has increased from 7.5% of net sales in the twelve months ended December 31, 2005 to 9.0% of net sales in the twelve months ended December 31, 2006 primarily due to the Bols and Polmos Bialystok acquisitions in 2005, as production companies generally run a higher S,G&A as a percent of sales than distribution companies.

As part of the Company's entrance into brand ownership, and costs related to the promotion of our own brands, marketing expenses have increased by \$5.0 million from \$9.1 million for the twelve months ended December 31, 2005 to \$14.1 million for the twelve months ended December 31, 2006. Included in this increase are marketing costs related to the acquired brands, which represent approximately 1% of net sales revenue.

Depreciation and amortization increased by approximately 43.2%, or \$ 1.9 million, from \$4.4 million for the twelve months ended December 31, 2005 to \$6.3 million for the twelve months ended December 31, 2006. This increase resulted primarily from the effect of business acquisitions.

Bad debt expense remained stable at approximately 0.1% of net sales.

### Operating Income

Total operating income increased by approximately 77.5%, or \$40.0 million, from \$51.6 million for the twelve months ended December 31, 2005 to \$91.6 million for the twelve months ended December 31, 2006. This increase resulted primarily from our acquisitions. Operating margin increased from 6.9% of net sales for the twelve months ended December 31, 2005 to 9.7% of net sales for the twelve months ended December 31, 2006. The increase in operating margin is due primarily to the higher gross profit margin as described above.

### Non-Operating Income and Expenses

Total interest expense increased by approximately 101.3%, or \$16.0 million, from \$15.8 million for the twelve months ended December 31, 2005 to \$31.8 million for the twelve months ended December 31, 2006. This increase resulted primarily from interest on, and amortization of, the financial cost of our €325 million of Senior Secured Notes issued in July 2005 to finance the Bols and Bialystok acquisitions.

Other financial expenses relate primarily to the impact of movements in exchange rates and the cost of hedges. For the twelve months ended December 31, 2006, these costs included primarily \$3.3 million of foreign



exchange rate gains related to our Senior Secured Notes financing and \$13.1 million of gain on closed hedge contracts. For detailed information please refer to Note 14 to our consolidated financial statements.

Other non-operating income increased by approximately \$1.4 million for the twelve months ended December 31, 2006. This increase resulted primarily from a gain in sales of assets, including a gain on sale of accounts receivable which were fully provided for. The gain on these sales amounted to approximately \$1.1 million.

### Income Tax

Our effective tax rate as of December 31, 2006 was 18%, which was driven primarily by the tax rate in Poland of 19%, where most of our income is generated and the tax loss carried forward generated in the U.S.

### Statement of Liquidity and Capital Resources

During the periods under review, the Company's primary sources of liquidity were cash flows generated from operations, credit facilities, the issuance of the Senior Secured Notes and proceeds from options exercised. The Company's primary uses of cash were to fund its working capital requirements, service indebtedness, finance capital expenditures and fund acquisitions. The following table sets forth selected information concerning the Company's consolidated cash flow during the periods indicated.

	Twelve months ended December 31, 2007	Twelve months ended December 31, 2006
	(\$ in thousands)	
Cash flow from operating activities . . . . .	23,084	71,691
Cash flow used in investing activities . . . . .	(159,122)	(41,922)
Cash flow from financing activities . . . . .	56,923	60,786

### *Fiscal year 2007 cash flow*

#### *Net cash flow from operating activities*

Net cash flow from operating activities represents net cash from operations, servicing of finance and taxation. Net cash provided by operating activities for the twelve months ended December 31, 2007 was \$23.1 million as compared to \$71.7 million for the twelve months ended December 31, 2006. The primary drivers impacting the movements in working capital were related to the timing of payments for excise tax, as discussed below, as well as the overall growth of our business. Included in the working capital movements is an increase in other accrued liabilities and payables of \$16.3 million in 2007 as compared to a \$14.6 million decrease in 2006 reflecting the impact of timing of excise payments. Due to the timing of production, a greater amount of excise tax was paid in December in 2007 as compared to December 2006 which resulted in a \$31 million swing in the other accrued liabilities and payables line. In order to drive sales, more products were released into the market in November 2007 requiring excise tax payments in December 2007 as compared to the prior year sales where a greater portion of excise tax was paid in January 2007. Other working capital items grew in line with business growth in 2007. However in 2006 the Company benefited from a one time cash inflow when the trade terms with wholesalers were changed, requiring either cash on delivery payments or a bank guarantee at the end of 2005. Thus, cash outflows from accounts receivables were \$7.6 million for the twelve months ended December 31, 2006 as compared to \$38.8 million for the twelve months ended December 31, 2007.

#### *Net cash flow used in investing activities*

Net cash flows used in investing activities represents net cash used to acquire subsidiaries and fixed assets as well as proceeds from sales of fixed assets. Net cash used in investing activities for the twelve months ended



December 31, 2007 was \$159.1 million as compared to \$41.9 million for the twelve months ended December 31, 2006. The primary expenditures in 2007 were the additional purchase of shares in Polmos Bialystok for \$132.8 million, and investment in the new rectification facilities for \$16 million. Included in cash flows from investing activities are net cash inflows of \$5.0 million from the final purchase price adjustment from our Botalpol acquisition completed in 2005.

***Net cash flow from financing activities***

Net cash flow from financing activities represents cash used for servicing indebtedness, borrowings under credit facilities and cash inflows from private placements and exercise of options. Net cash provided by financing activities was \$56.9 million for the twelve months ended December 31, 2007 as compared to \$60.8 million for the twelve months ended December 31, 2006. In January and March of 2007, the Company completed redemption of 20% of its outstanding Senior Secured Notes for a total of €65.0 million which was financed by equity offerings completed in December 2006 and February 2007. In order to finance the acquisition of the additional share of Polmos Bialystok as noted above, the Company drew down \$123 million of funds from a new credit facility during 2007.

***Fiscal year 2006 cash flow***

***Net cash flow from operating activities***

Net cash flow from operating activities represents net cash from operations, servicing of finance and taxation. Net cash provided by operating activities for the twelve months ended December 31, 2006 was \$71.7 million as compared to \$34.1 million for the twelve months ended December 31, 2005. The primary drivers for the increase were overall business growth, improved supplier management and higher margin on sales of our own produced products. Working capital movements contributed \$10.0 million of cash inflows for the twelve months ended December 31, 2006 as compared to \$3.8 million of cash outflows for the twelve months ended December 31, 2005. In December of 2005, the Company changed the trade terms with wholesalers, requiring either cash on delivery payments or a bank guarantee. The impact of these changes in trade terms contributed to the improvement in cash flow from receivables. Cash outflows from accounts receivables were \$23.7 million for the twelve months ended December 31, 2005 as compared to \$7.6 million for the twelve months ended December 31, 2006.

***Net cash flow used in investing activities***

Net cash flows used in investing activities represents net cash used to acquire subsidiaries and fixed assets as well as proceeds from sales of fixed assets. Net cash used in investing activities for the twelve months ended December 31, 2006 was \$41.9 million as compared to \$460.1 million for the twelve months ended December 31, 2005. The primary expenditures in 2006 were the Bols Hungary acquisition that took place in July 2006 which resulted in cash outflow of \$20.4 million, and the increase of shareholding in Polmos Bialystok for \$11.5 million following our tender offer in December 2006. Included in cash flows from investing activities are net cash inflows of \$4.8 million from sales of financial assets.

***Net cash flow from financing activities***

Net cash flow from financing activities represents cash used for servicing indebtedness, borrowings under credit facilities and cash inflows from private placements and exercise of options. Net cash provided by financing activities was \$60.8 million for the twelve months ended December 31, 2006 as compared to \$476.4 million for the twelve months ended December 31, 2005. The cash inflow from financing activities during the twelve months ended December 31, 2006 resulted primarily from our \$71.7 million public offering of our common stock in connection with our listing on the Warsaw Stock Exchange.



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**The Company's Future Liquidity and Capital Resources**

The Company's primary uses of cash in the future will be to fund its working capital requirements, service indebtedness, finance capital expenditures and fund acquisitions. The Company expects to fund these requirements in the future with cash flows from its operating activities, cash on hand, and the financing arrangements described below.

**Financing Arrangements***Existing Credit Facilities*

As of December 31, 2007, the Company had total short-term debt outstanding under existing credit facilities in the Polish Zloty equivalent of approximately \$42.8 million. In order to fund working capital and other liquidity requirements, the Company also has available non-committed credit lines with various banks and credit institutions. As of December 31, 2007, the amount of available, unutilized and uncommitted credit facilities was the Polish Zloty equivalent of approximately \$73.0 million. These existing credit facilities are subject to renewal on an annual basis.

As of December 31, 2007, the company had utilized approximately \$123 million of a multipurpose credit line agreement in connection with a tender offer in Poland to purchase the remaining outstanding shares of Polmos Bialystok S.A. The Company's obligations under the credit line agreement are guaranteed through promissory notes by, and a pledge of the shares of, certain subsidiaries of the Company. The indebtedness under the credit line agreement bears interest at a rate equal to the one month Warsaw Interbank Rate plus a margin of 1.2% and matures on March 31, 2009.

On February 9, 2008, CEDC received a binding term sheet from Bank Zachodni WBK SA in Poland to provide up to \$50 million of financing to be used to finance a portion of the Parliament acquisition. The term sheet provides a \$30 million five year amortizing term facility and a one year \$20 million short term facility with annual renewal. The facilities are to bear interest at 6 month LIBOR plus 1.65% for the five year facility and 1.45% for the short term facility and contains other customary terms and covenants.

*Senior Secured Notes*

In connection with the Bols and Polmos Bialystok acquisitions, on July 25, 2005 the Company completed the issuance of €325 million 8% Senior Secured Notes due 2012 (the "Notes"). Interest is due semi-annually on the 25<sup>th</sup> of January and July, and the Notes are guaranteed on a senior basis by certain of the Company's subsidiaries. The Indenture governing our Notes contains certain restrictive covenants, including covenants limiting the Company's ability to: make certain payments, including dividends or other distributions, with respect to the share capital of the parent or its subsidiaries; incur or guarantee additional indebtedness or issue preferred stock; make certain investments; prepay or redeem subordinated debt or equity; create certain liens or enter into sale and leaseback transactions; engage in certain transactions with affiliates; sell assets or consolidate or merge with or into other companies; issue or sell share capital of certain subsidiaries; and enter into other lines of business.

In order to reduce the Company's borrowing costs, two redemptions of its Senior Secured Notes were completed during the first quarter of 2007 as described below.

On January 19, 2007, the Company completed a redemption of the Senior Secured Notes equal to €32.5 million. In addition to the payment of principal and accrued interest the Company paid a redemption premium of 8%. The repurchase was financed with the proceeds from the equity offerings completed in December 2006.

On March 29, 2007 the Company completed a second redemption of the Senior Secured Notes equal to €32.5 million. In addition to the payment of principal and accrued interest the Company paid a redemption premium of 8%. The repurchase was financed with the proceeds from the equity offerings completed in February 2007.

In connection with above redemptions of Senior Secured Notes, the Company recognized a loss of \$2.8 million related to the portion of the Interest Rate Swap of \$32.5 million closed in connection with the January redemption and prepaid financing costs associated with retired debt for \$2.2 million relating to both.





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As of December 31, 2007 and 2006, the Company had accrued interest included in other accrued liabilities of \$15.8 million and \$15.5 million respectively related to the Senior Secured Notes, with the next coupon due for payment on January 25, 2008. Total obligations under the Senior Secured Notes are shown net of deferred finance costs, amortized over the life of the borrowings using the effective interest rate method and fair value adjustments from the application of hedge accounting.

#### *Equity Offering*

In February 2007, the Company closed a public offering of 1,553,571 shares of common stock at an offering price of \$28 per share. The proceeds from this offering were used to repurchase an additional portion of our Senior Secured Notes described above.

#### *Capital Expenditure*

Our net capital expenditure on tangible fixed assets for the twelve months ending December 31, 2007, 2006, and 2005 was \$23.1 million, \$9.7 million and \$5.1 million, respectively. Capital expenditures during the twelve months ended December 31, 2007 were used primarily for investments in rectification of approximately \$16 million, as well as fleet, information systems and plant maintenance. Capital expenditures during the twelve months ended December 31, 2006 and 2005 were used primarily for investments in fleet, information systems and plant maintenance.

We have estimated that maintenance capital expenditure for 2008, 2009 and 2010 for our existing business combined with our acquired businesses will be approximately \$8.0 to \$12.0 million per year. Future capital expenditure is expected to be used for our continued investment in information technology, trucks, and routine improvements to production facilities. Pursuant to our acquisition of Polmos Bialystok, the Company is required to ensure that Polmos Bialystok will make investments of at least 77.5 million Polish Zloty (approximately \$31.8 million based on year end exchange rate) during the five years after the consummation of the acquisition. As of December 31, 2007 the company has completed 54% of these investment commitments.

A substantial portion of these future capital expenditure amounts are discretionary, and we may adjust spending in any period according to our needs. We currently intend to finance all of our capital expenditure through cash generated from operating activities.

#### *Contractual Obligations*

The following table summarizes our contractual obligations as of December 31, 2007:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(unaudited) (\$ in thousands)		
Long-term debt obligations . . . . .	\$467,250	\$ —	\$122,952	\$344,298	\$ —
Interest on long-term debt . . . . .	162,900	38,592	63,156	61,152	—
Short-term debt obligations . . . . .	42,785	42,785	—	—	—
Operating leases . . . . .	18,689	5,241	8,376	3,450	1,622
Capital leases . . . . .	4,467	1,759	2,708	—	—
Contracts with suppliers . . . . .	448	448	—	—	—
<b>Total . . . . .</b>	<b>\$696,539</b>	<b>\$88,825</b>	<b>\$197,192</b>	<b>\$408,900</b>	<b>\$1,622</b>

#### *Effects of Inflation and Foreign Currency Movements*

Substantially all of Company's operating cash flows and assets are denominated in Polish Zloty and Hungarian Forint. This means that the Company is exposed to translation movements both on its balance sheet and income statement. The impact on working capital items is demonstrated on the cash flow statement as the



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movement in exchange on cash and cash equivalents. The impact on the income statement is by the movement of the average exchange rate used to restate the income statement from Polish Zloty and Hungarian Forint to U.S. Dollars. The amounts shown as exchange rate gains or losses on the face of the income statement relate only to realized gains or losses on transactions that are not denominated in Polish Zloty or Hungarian Forint.

As a result of the issuance of the Company's €260 million Senior Secured Notes due 2012, we are exposed to foreign exchange movements. Movements in the EUR-Polish Zloty exchange rate will require us to revalue our liability on the Senior Secured Notes accordingly, the impact of which will be reflected in the results of the Company's operations. In order to manage the cash flow impact of foreign exchange changes, the Company has entered into certain hedge agreements. As of December 31, 2007, the Company had outstanding a hedge contract for a seven year interest rate swap agreement. The swap agreement exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin.

The average Zloty/Dollar exchange rate used to create our income statement appreciated by approximately 10%. The actual year end Zloty/Dollar exchange rate used to create our balance sheet appreciated by approximately 16%.

## Critical Accounting Policies and Estimates

### General

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of net sales, expenses, assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

### Goodwill and Intangibles

Following the introduction of SFAS 142, acquired goodwill is no longer amortized. Instead the Company assesses the recoverability of its goodwill at least once a year or whenever adverse events or changes in circumstances or business climate indicate that expected future cash flows (undiscounted and without interest charges) for individual business units may not be sufficient to support the recorded goodwill. If undiscounted cash flows are not sufficient to support the goodwill, an impairment charge would be recognized to reduce the carrying value of the goodwill based on the expected discounted cash flows of the business unit. No such charge has been considered necessary through the date of the accompanying financial statements. Intangibles are amortized over their effective useful life. In estimating fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings, and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If these estimates or their related assumptions change in the future, the Company may be required to record an impairment loss for the assets. The fair values calculated have been adjusted where applicable to reflect the tax impact upon disposal of the asset.

In connection with the Bols and Bialystok acquisitions, the Company has acquired trademark rights to various brands, which were capitalized as part of the purchase price allocation process. As these brands are well established they have been assessed to have an indefinite life. These trademarks rights will not be amortized; however, management assesses them at least once a year for impairment.



The calculation of the impairment charge for goodwill and indefinite lived intangible assets, requires the use of estimates. The discount rate used for the calculation was 7.42%. Factoring in a deviation of 10% for the discount rate as compared to management's estimate, there would still be no need for an impairment charge against goodwill.

### **Accounting for Business Combinations**

The acquisition of businesses is an important element of the Company's strategy. We account for our acquisitions under the purchase method of accounting in accordance with SFAS 141, Business Combinations, and allocate the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The determination of the values of the assets acquired and liabilities assumed, as well as associated asset useful lives, requires management to make estimates. The Company's acquisitions typically result in goodwill and other intangible assets; the value and estimated life of those assets may affect the amount of future period amortization expense for intangible assets with finite lives as well as possible impairment charges that may be incurred.

The calculation of purchase price allocation requires judgment on the part of management in determining the valuation of the assets acquired and liabilities assumed.

### **Derivative Instruments**

The Company is exposed to market movements from changes in foreign currency exchange rates that could affect the Company's results of operations and financial condition. In accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value.

The fair values of the Company's derivative instruments can change with fluctuations in interest rates and/or currency rates and are expected to offset changes in the values of the underlying exposures. The Company's derivative instruments are held to hedge economic exposures. The Company follows internal policies to manage interest rate and foreign currency risks, including limitations on derivative market-making or other speculative activities.

At the inception of a transaction the Company documents the relationship between the hedging instruments and hedged items, as well as its risk management objective. This process includes linking all derivatives designated to specific firm commitments or forecasted transitions. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

### **Share Based Payments**

As of January 1, 2006, the Company adopted SFAS No. 123(R) "Share-Based Payment" requiring the recognition of compensation expense in the Condensed Consolidated Statements of Income related to the fair value of its employee share-based options. SFAS No. 123(R) revises SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees". SFAS No. 123(R) is supplemented by SEC Staff Accounting Bulletin ("SAB") No. 107 "Share-Based Payment". SAB No. 107 expresses the SEC staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations including the valuation of share-based payments arrangements.

Grant-date fair value of stock options is estimated using a lattice-binomial option-pricing model. We recognize compensation cost for awards over the vesting period. The majority of our stock options have a vesting period between one to three years.



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See Note 10 to our Consolidated Financial Statements for more information regarding stock-based compensation.

### Recently issued accounting pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 “Fair Value Measurements” (“SFAS 157”). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company has implemented certain provisions of this pronouncement and is not expecting any material impact that the full implementation of SFAS 157 would have on the consolidated financial statements when adopted.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115.” SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company January 1, 2008. The Company is not expecting the implementation of SFAS 159 on the consolidated financial statements, when adopted, to have any material impact.

In December 2007, the FASB issued SFAS No. 141-R, “Business Combinations”. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is business combinations in the year ending November 30, 2010 for the Company. The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects.

In December 2007, the FASB issued SFAS 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51”. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which for the Company is the year ending November 30, 2010 and the interim periods within the fiscal year. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. This standard currently does not impact us as we have full controlling interest of all of our subsidiaries, however this standard may impact the treatment of future acquisitions.

### Item 7A. Quantitative and Qualitative Disclosure about Market Risk

Our operations are conducted primarily in Poland and our functional currency is the Polish Zloty and the reporting currency is the U.S. Dollar. Our financial instruments consist mainly of cash and cash equivalents, accounts receivable, accounts payable and receivable, inventories, bank loans, overdraft facilities and long-term debt. All of the monetary assets represented by these financial instruments are located in Poland. Consequently, they are subject to currency translation risk when reporting in U.S. Dollars.

If the U.S. Dollar increases in value against the Polish Zloty, the value in U.S. Dollars of assets, liabilities, revenues and expenses originally recorded in Polish Zloty will decrease. Conversely, if the U.S. Dollar decreases in value against the Polish Zloty, the value in U.S. Dollars of assets, liabilities, revenues and expenses originally recorded in Polish Zloty will increase. Thus, increases and decreases in the value of the U.S. Dollar can have a material impact on the value in U.S. Dollar of our non-U.S. Dollar assets, liabilities, revenues and expenses, even if the value of these items has not changed in their original currency.



Our commercial foreign exchange exposure mainly arises from the fact that substantially all of our revenues are denominated in Polish Zloty, and our Senior Secured Notes are denominated in Euros. This Euro debt has been lent down to the operating subsidiary level in Poland, thus exposing the Company to movements in the Euro/Polish Zloty exchange rate. Every 1% movement in this exchange rate would result in an approximately \$3.8 million change in the valuation of the liability with the offsetting pre-tax gains or losses recorded in the profit and loss of the Company per annum without considering any potential early repayments of the Senior Secured Notes.

Because all of our working capital financing is at floating rates, changes in interest rates may impact our net interest expense, positively in the event of a reduction in base rates and adversely should base rates increase. A 1 basis point change in the change of our base rates for working capital financing would result in an approximately \$4,280 increase or decrease in our borrowing costs, based upon year end working capital facilities utilized.

As a result of the issuance of the Company's €260 million Senior Secured Notes due 2012, we are exposed to foreign exchange movements. Movements in the Euro/Polish Zloty exchange rate will require us to revalue our liability on the Senior Secured Notes accordingly, the impact of which will be reflected in the results of the Company's operations. In order to manage the cash flow impact of foreign exchange changes, the Company has entered into certain hedge agreements. As of December 31, 2007, the Company had outstanding a hedge contract for a seven year interest rate swap agreement hedging 254.1 million EUR of the Senior Secured Notes. The swap agreement exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin. Any changes in Euribor will result in a change in the interest expense. Each basis point move in Euribor will result in an increase or a decrease in annual interest expense of €25,410.



**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Index to consolidated financial statements:**

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[PwC Office Letterhead]

## Report of Independent Registered Public Accounting Firm

### To the Board of Directors and Shareholders of Central European Distribution Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Central European Distribution Corporation and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, Management has excluded PHS Sp. z o.o. from its assessment of internal controls over financial reporting as of December 31, 2007, because this company was acquired by the Company in the purchase business combination during the year ended December 31, 2007. This company is a subsidiary of Central European Distribution Corporation that is controlled by ownership of a majority of voting interest, whole total assets and



total revenues represent 0.97% and 2.98% respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2007.

PricewaterhouseCoopers Sp. z o.o.  
Warsaw, Poland  
February 29, 2008



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## CENTRAL EUROPEAN DISTRIBUTION CORPORATION

## CONSOLIDATED CONDENSED BALANCE SHEET

Amounts in columns expressed in thousands  
(except share information)

	December 31, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 87,867	\$ 159,362
Accounts receivable, net of allowance for doubtful accounts of \$29,277 and \$24,354 respectively	316,277	224,575
Inventories	141,272	89,522
Prepaid expenses and other current assets	16,536	24,299
Deferred income taxes	5,141	5,336
<b>Total Current Assets</b>	<b>567,093</b>	<b>503,094</b>
Intangible assets, net	545,697	371,624
Goodwill, net	577,282	398,005
Property, plant and equipment, net	79,979	49,801
Deferred income taxes	11,407	3,305
Other assets	710	204
<b>Total Assets</b>	<b>\$1,782,168</b>	<b>\$1,326,033</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 172,340	\$ 138,585
Bank loans and overdraft facilities	42,785	24,656
Income taxes payable	5,408	2,975
Taxes other than income taxes	101,929	94,985
Other accrued liabilities	71,959	57,620
Current portions of obligations under capital leases	1,759	2,005
<b>Total Current Liabilities</b>	<b>396,180</b>	<b>320,826</b>
Long-term debt, less current maturities	122,952	8
Long-term obligations under capital leases	2,708	1,122
Long-term obligations under Senior Secured Notes	344,298	393,434
Deferred income taxes	100,113	68,275
<b>Total Long Term Liabilities</b>	<b>570,071</b>	<b>462,839</b>
Minority interests	481	21,395
<b>Stockholders' Equity</b>		
Common Stock (\$0.01 par value, 80,000,000 shares authorized, 40,566,096 and 38,691,635 shares issued at December 31, 2007 and 2006, respectively)	406	387
Additional paid-in-capital	429,554	374,985
Retained earnings	205,186	128,084
Accumulated other comprehensive income	180,440	17,667
Less Treasury Stock at cost (246,037 shares at December 31, 2007 and 2006, respectively)	(150)	(150)
<b>Total Stockholders' Equity</b>	<b>815,436</b>	<b>520,973</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,782,168</b>	<b>\$1,326,033</b>

The accompanying notes are an integral part of the consolidated condensed financial statements.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**  
Amounts in columns expressed in thousands  
(except per share information)

	Year ended December 31,		
	2007	2006	2005
<b>Sales</b> .....	<b>\$1,483,344</b>	<b>\$1,193,248</b>	<b>\$828,918</b>
Excise taxes .....	(293,522)	(249,140)	(79,503)
<b>Net Sales</b> .....	<b>1,189,822</b>	<b>944,108</b>	<b>749,415</b>
Cost of goods sold .....	941,060	745,721	627,368
<b>Gross Profit</b> .....	<b>248,762</b>	<b>198,387</b>	<b>122,047</b>
Operating expenses .....	130,677	106,805	70,404
<b>Operating Income</b> .....	<b>118,085</b>	<b>91,582</b>	<b>51,643</b>
Non operating income / (expense), net			
Interest (expense), net .....	(35,829)	(31,750)	(15,828)
Other financial (expense), net .....	13,594	17,212	(7,678)
Other non operating income / (expense), net .....	(1,770)	1,119	(262)
<b>Income before taxes</b> .....	<b>94,080</b>	<b>78,163</b>	<b>27,875</b>
Income tax expense .....	15,910	13,986	5,346
Minority interests .....	1,068	8,727	2,261
<b>Net income</b> .....	<b>\$ 77,102</b>	<b>\$ 55,450</b>	<b>\$ 20,268</b>
<b>Net income per share of common stock, basic</b> .....	<b>\$ 1.93</b>	<b>\$ 1.55</b>	<b>\$ 0.72</b>
<b>Net income per share of common stock, diluted</b> .....	<b>\$ 1.91</b>	<b>\$ 1.53</b>	<b>\$ 0.70</b>

The accompanying notes are an integral part of the consolidated condensed financial statements.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN**  
**STOCKHOLDERS' EQUITY**  
Amounts in columns expressed in thousands  
(except per share information)

	Common Stock				Additional Paid-in Capital	Retained Earnings	Accumu- lated other comprehen- sive income	Total
	Common Stock		Treasury Stock					
	No. of Shares	Amount	No. of Shares	Amount				
Balance at December 31, 2004	16,677	\$166	164	(\$150)	\$ 55,663	\$ 52,366	\$ 12,271	\$120,316
Net income for 2005	—	—	—	—	—	20,268	—	20,268
Foreign currency translation adjustment	—	—	—	—	—	—	(6,626)	(6,626)
Comprehensive income for 2005	—	—	—	—	—	20,268	(6,626)	13,642
Common stock issued in private placement	3,360	34	—	—	111,560	—	—	111,594
Common stock issued in connection with options	438	5	—	—	3,201	—	—	3,206
Common stock issued in connection with acquisitions	3,410	34	—	—	126,150	—	—	126,184
Balance at December 31, 2005	23,885	\$239	164	(\$150)	\$296,574	\$ 72,634	\$ 5,645	\$374,942
Net income for 2006	—	—	—	—	—	55,450	—	55,450
Foreign currency translation adjustment	—	—	—	—	—	—	12,022	12,022
Comprehensive income for 2006	—	—	—	—	—	55,450	12,022	67,472
Contractual compensation	2	—	—	—	57	—	—	57
Effect of stock split June 12, 2006	11,977	120	82	—	(120)	—	—	—
Common stock issued in public placement	2,550	26	—	—	71,571	—	—	71,597
Common stock issued in connection with options	274	2	—	—	6,729	—	—	6,731
Common stock issued in connection with acquisitions	4	—	—	—	161	—	—	161
Share purchase in Polmos	—	—	—	—	—	0	—	0
Other	—	—	—	—	13	—	—	13
Balance at December 31, 2006	38,692	\$387	246	(\$150)	\$374,985	\$128,084	\$ 17,667	\$520,973
Net income for 2007	—	—	—	—	—	77,102	—	77,102
Foreign currency translation adjustment	—	—	—	—	—	—	162,773	162,773
Comprehensive income for 2007	—	—	—	—	—	77,102	162,773	239,875
Common stock issued in public placement	1,554	16	—	—	42,338	—	—	42,354
Common stock issued in connection with options	272	3	—	—	5,538	—	—	5,541
Common stock issued in connection with acquisitions	48	0	—	—	1,693	—	—	1,693
Refundable purchase price related to Botapol acquisition	—	—	—	—	5,000	—	—	5,000
Balance at December 31, 2007	40,566	\$406	246	(\$150)	\$429,554	\$205,186	\$180,440	\$815,436

The accompanying notes are an integral part of the consolidated condensed financial statements.



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**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW**  
**Amounts in columns expressed in thousands**

	Year ended December 31,		
	2007	2006	2005
<b>CASH FLOW</b>			
<b>Operating Activities</b>			
Net income	\$ 77,102	\$ 55,450	\$ 20,268
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:			
Depreciation and amortization	9,968	8,739	4,529
Deferred income taxes	9,957	2,205	(317)
Bad debt provision	249	999	984
Minority interests	1,044	8,727	2,261
Hedge valuation	—	(13,118)	16,957
Unrealized foreign exchange (gains) / losses	(23,940)	(3,274)	(14,351)
Cost of debt extinguishment	11,864	—	—
Stock options expense	1,866	1,908	—
Other non cash items	7,059	80	—
Changes in operating assets and liabilities:			
Accounts receivable	(38,812)	(7,554)	(23,730)
Inventories	(21,986)	(3,165)	(238)
Prepayments and other current assets	5,865	(2,026)	(6,575)
Trade accounts payable	(880)	8,123	(7,149)
Other accrued liabilities and payables	(16,272)	14,597	41,442
Net Cash provided by Operating Activities	23,084	71,691	34,081
<b>Investing Activities</b>			
Investment in fixed assets	(25,787)	(11,713)	(8,091)
Proceeds from the disposal of fixed assets	2,670	2,045	2,454
Investment in trademarks	—	(1,210)	—
Purchase of financial assets	—	—	(79,412)
Proceeds from the disposal of financial assets	—	4,784	115,028
Refundable purchase price related to Botapol acquisition	5,000	—	—
Acquisitions of subsidiaries, net of cash acquired	(141,005)	(35,828)	(490,092)
Net Cash used in Investing Activities	(159,122)	(41,922)	(460,113)
<b>Financing Activities</b>			
Borrowings on bank loans and overdraft facility	13,225	15,379	4,804
Borrowings on long-term bank loans	122,508	—	—
Payment of bank loans and overdraft facility	(30,153)	(21,526)	(13,565)
Payment of long-term borrowings	8	(3)	(6,438)
Net Borrowings of Senior Secured Notes	—	—	378,447
Payment of Senior Secured Notes	(95,440)	—	—
Hedge closure	—	(7,323)	—
Movements in capital leases payable	445	(2,232)	(1,676)
Issuance of shares in public placement	42,354	71,719	—
Issuance of shares in private placement	—	—	111,594
Options exercised	3,976	4,772	3,205
Net Cash provided by Financing Activities	56,923	60,786	476,371
Currency effect on brought forward cash balances	7,620	8,062	(86)
Net Increase / (Decrease) in Cash	(71,495)	98,617	50,254
Cash and cash equivalents at beginning of period	159,362	60,745	10,491
Cash and cash equivalents at end of period	\$ 87,867	\$ 159,362	\$ 60,745
<b>Supplemental Schedule of Non-cash Investing Activities</b>			
Common stock issued in connection with investment in subsidiaries	1,693	\$ 161	\$ 126,156
<b>Supplemental disclosures of cash flow information</b>			
Interest paid	\$ 40,136	\$ 37,256	\$ 2,669
Income tax paid	\$ 21,362	\$ 11,980	\$ 4,580

The accompanying notes are an integral part of the consolidated condensed financial statements.





**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
Amounts in tables expressed in thousands, except per share information

**1. Organization and Significant Accounting Policies**

***Organization and Description of Business***

Central European Distribution Corporation (“CEDC”), a Delaware corporation, and its subsidiaries (collectively referred to as “we,” “us,” “our,” or the “Company”) operate primarily in the alcohol beverage industry. Historically the Company has operated as a distributor and importer of alcoholic beverages in Poland. Since acquisitions made in 2005, the Company became the largest vodka producer and the leading distributor and importer of alcoholic beverages in Poland. In July 2006, the Company expanded outside of Poland through the acquisition of Bols Hungary, becoming a leading importer of alcoholic beverages in Hungary. The Company is based in Warsaw and operates through its subsidiaries in Poland and Hungary.

***Significant Accounting Policies***

The significant accounting policies and practices followed by the Company are as follows:

***Basis of Presentation***

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Our Company consolidates all entities that we control by ownership of a majority voting interest. All inter-company accounts and transactions have been eliminated in the consolidated financial statements.

CEDC’s subsidiaries maintain their books of account and prepare their statutory financial statements in their respective local currencies. The subsidiaries’ financial statements have been adjusted to reflect accounting principles generally accepted in the United States of America (U.S. GAAP).

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Our Company consolidates all entities that we control by ownership of a majority voting interest. All inter-company accounts and transactions have been eliminated in the consolidated financial statements.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates and such differences may be material to the consolidated financial statements.

***Foreign Currency Translation and Transactions***

For all of the Company’s subsidiaries the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. The Income Statements are translated at the average rate of exchange prevailing during the respective year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of stockholders’ equity. Transaction adjustments arising from operations as well as gains and losses from any specific foreign currency transactions are included in the reported net income for the period.

The accompanying consolidated financial statements have been presented in U.S. Dollars.



# **CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

## **NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

### ***Tangible Fixed Assets***

Tangible fixed assets are stated at cost, less accumulated depreciation. Depreciation of tangible fixed assets is computed by the straight-line method over the following useful lives:

<u>Type</u>	<u>Depreciation life in years</u>
Transportation equipment including capital leases . . . . .	5
Production equipment . . . . .	10
Software . . . . .	5
Computers and IT equipment . . . . .	3
Beer dispensing and other equipment . . . . .	2-10
Freehold land . . . . .	Not depreciated
Freehold buildings . . . . .	40

Leased equipment meeting appropriate criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on a straight-line method over the useful life of the relevant assets.

Where the cost of equipment is approximately \$1,500 per transaction, it is expensed to the income statement as incurred.

The Company periodically reviews its investment in tangible fixed assets and when indicators of impairment exist, an impairment loss is recognized.

### ***Goodwill***

As required by SFAS 142, acquired goodwill is no longer amortized. Instead the Company assesses the recoverability of its goodwill at least once a year or whenever adverse events or changes in circumstances or business climate indicate that expected future cash flows (undiscounted and without interest charges) for business units of a similar economic nature may not be sufficient to support the recorded goodwill. If undiscounted cash flows were to be insufficient to support the goodwill, an impairment charge would be recognized to reduce the carrying value of the goodwill based on the expected discounted cash flows of the business units. No such charge has been considered necessary through the date of the accompanying financial statements.

### ***Purchase price allocations***

We account for our acquisitions under the purchase method of accounting in accordance with SFAS 141, Business Combinations, and allocate the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The determination of the values of the assets acquired and liabilities assumed, as well as associated asset useful lives, requires management to make estimates.

### ***Intangible assets other than Goodwill***

Intangibles consist primarily of acquired trademarks relating to well established brands, and as such have been deemed to have an indefinite life. In accordance with SFAS 142, intangible assets with an indefinite life are not amortized but are reviewed at least annually for impairment. Additional intangible assets include the valuation of customer contracts arising as a result of acquisitions, these intangible assets are amortized over their estimated useful life of 8 years.



# **CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

## **NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

### ***Impairment of long lived assets***

In accordance with SFAS 144, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of an asset exceeds its fair value.

### ***Revenue Recognition***

Sales are recognized when title passes to the customer, which is generally when the goods are shipped to customers and where a delivery acceptance note signed by the customer has been returned to the Company. Sales are stated net of turnover related customer discounts, an estimate of customer returns and sales tax (VAT). Net sales revenue includes excise tax except in the case where the sales is made directly from the production unit, in which case it is recorded net of excise tax.

### ***Shipping and Handling Costs***

Where the Company has incurred costs in shipping goods to its warehouse facilities these costs are recorded as part of inventory and then to costs of goods sold. Shipping and handling costs associated with distribution are recorded in Selling, General and Administrative (S,G&A) costs.

### ***Accounts Receivable***

Accounts receivables are recorded based on the invoice price, inclusive of VAT (sales tax), and where a delivery note has been signed by the customer and returned to the Company. The allowances for doubtful accounts are based upon the aging of the accounts receivable, whereby the Company makes an allowance based on a sliding scale. The Company typically does not provide for past due amounts due from large international retail chains (hypermarkets and supermarkets) as there have historically not been any issues with collectability of these amounts. However, where circumstances require, the Company will also make specific provisions for any excess not provided for under the general provision. When a final determination is delivered to the Company regarding the non-recovery of a receivable, the Company then charges the unrecoverable amount to the accumulated allowance.

### ***Inventories***

Inventories are stated at the lower of cost (first-in, first-out method) or market value. Elements of cost include materials, labor and overhead and are classified as follows:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Raw materials and supplies .....	\$ 19,051	\$13,084
In-process inventories .....	2,479	298
Finished goods and goods for resale .....	119,742	76,140
<b>Total</b> .....	<u><b>\$141,272</b></u>	<u><b>\$89,522</b></u>



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

Because of the nature of the products supplied by the Company, great attention is paid to inventory rotation. Where goods are estimated to be obsolete or unmarketable they are written down to a value reflecting the net realizable value in their relevant condition.

Cost includes customs duty (where applicable), and all costs associated with bringing the inventory to a condition for sale. These costs include importation, handling, storage and transportation costs, and exclude rebates received from suppliers, which are reflected as reductions to closing inventory. Inventories are comprised primarily of beer, wine, spirits, packaging materials and non-alcoholic beverages.

***Cash and Cash Equivalents***

Short-term investments which have a maturity of three months or less from the date of purchase are classified as cash equivalents.

***Income Taxes and Deferred Taxes***

The Company computes and records income taxes in accordance with the liability method. Deferred tax assets and liabilities are recorded based on the difference between the accounting and tax basis of the underlying assets and liabilities based on enacted tax rates expected to be in effect for the year in which the differences are expected to reverse.

***Employee Retirement Provisions***

The Company's employees are entitled to retirement payments and in some cases payments for long-service ("jubilee awards") and accordingly the Company provides for the current value of the liability related to these benefits. A provision is calculated based on the terms set in the collective labor agreement. The amount of the provision for retirement bonuses depends on the age of employees and the pre-retirement time of work for the Company and typically equals one months salary.

The Company does not create a specific fund designated for these payments and all payments related to the benefits are charged to the accrued liability. The provision for the employees' benefits is calculated annually using the projected unit method and any losses or gains resulting from the valuation are immediately recognized in the income statement.

The Company also contributes to State and privately managed defined contribution plans. Contributions to defined contribution plans are charged to the income statement in the period in which they are incurred.

***Employee Stock-Based Compensation***

At December 31, 2007, the Company had in place the 1997 Stock Incentive Plan ("the 1997 Incentive Plan") under which all stock-based compensation awards are granted to directors, executives, and other employees and to non-employee service providers of the Company. The 1997 Incentive Plan expired in November 2007; however, a new plan (the 2007 Stock Incentive Plan) was approved by CEDC shareholders during the annual shareholders meeting on April 30, 2007. The 2007 Stock Incentive Plan will expire in November 2017. The terms and conditions of the 2007 Stock Incentive Plan are substantially similar to those of the 1997 Stock Incentive Plan. See Note 10 for more information regarding stock-based compensation, including pro forma information required under SFAS No. 123 for periods prior to Fiscal 2006.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

As of January 1, 2006, the Company adopted SFAS No. 123(R) "Share-Based Payment" requiring the recognition of compensation expense in the Condensed Consolidated Statements of Income related to the fair value of its employee share-based options. SFAS No. 123(R) revises SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees". SFAS No. 123(R) is supplemented by SEC Staff Accounting Bulletin ("SAB") No. 107 "Share-Based Payment". SAB No. 107 expresses the SEC staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations including the valuation of share-based payments arrangements.

The Company recognizes the cost of all employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. The Company has selected the modified prospective method of transition; accordingly, prior periods have not been restated.

SFAS No. 123(R) "Share-Based Payment" requires the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of employee share-based options. Determining the fair value of share-based awards at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Judgment is also required in estimating the amount of share-based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, share-based compensation expense could be materially impacted. Prior to adopting SFAS No. 123(R), the Company applied Accounting Principles Board ("APB") Opinion No. 25, and related Interpretations, in accounting for its stock-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants in prior periods.

The Company's 2007 Stock Incentive Plan provides for the grant of stock options, stock appreciation rights, restricted stock and restricted stock units to directors, executives, and other employees ("employees") of the Company and to non-employee service providers of the Company. Following a shareholder resolution in April 2003 and the stock splits of May 2003, May 2004 and June 2006, the Incentive Plan authorizes, and the Company has reserved for future issuance, up to 1,397,333 shares of Common Stock (subject to an anti-dilution adjustment in the event of a stock split, re-capitalization, or similar transaction). The Compensation Committee of the Board of Directors of the Company administers the 2007 Stock Incentive Plan.

The option exercise price for stock options granted under the Incentive Plan may not be less than fair market value but in some cases may be in excess of the closing price of the Common Stock on the date of grant. The Company uses the stock option price based on the closing price of the Common Stock on the day before the date of grant if such price is not materially different than the opening price of the Common Stock on the day of the grant. Stock options may be exercised up to 10 years after the date of grant except as otherwise provided in the particular stock option agreement. Payment for the shares must be in cash, which must be received by the Company prior to any shares being issued. Stock options granted to directors and officers as part of an employee employment contract vest within 1-2 years. Stock options granted to general employees as part of a loyalty program vest after three years.

Before January 1, 2006 CEDC, the holding company, realized net operating losses and therefore an excess tax benefit (windfall) resulting from the exercise of the awards and a related credit to Additional Paid-in Capital (APIC) of \$2.2 million was not recorded in the Company's books. The excess tax benefits and the credit to APIC for the windfall should not be recorded until the deduction reduces income taxes payable on the basis that cash tax savings have not occurred. The Company will recognize the windfall upon realization.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

See Note 10 for more information regarding stock-based compensation, including pro forma information required under SFAS No. 123 for periods prior to Fiscal 2006.

***Derivative Financial Instruments***

The Company uses derivative financial instruments, including interest rate swaps and currency derivatives. Derivative financial instruments are initially recognized in the balance sheet at cost and are subsequently remeasured at their fair value. Changes in the fair value of derivative financial instruments are recognized periodically in either income or in shareholders' equity as a component of comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or a cash flow hedge.

Generally, changes in fair values of derivative financial instruments accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in fair values of derivative financial instruments not qualifying as hedges are reported in income. At the inception of a transaction the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and the strategy for undertaking various hedge transactions. This process includes linking all derivatives designated to specific firm commitments or forecasted transactions. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

***Comprehensive Income/(Loss)***

Comprehensive income/(loss) is defined as all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income includes net income adjusted by, among other items, foreign currency translation adjustments. The translation losses/gains on the re-measurements from foreign currencies (primarily the Polish Zloty) to US dollars are classified separately as a component of accumulated other comprehensive income included in stockholders' equity.

As of December 31, 2007, the Polish zloty exchange rate used to translate the balance sheet strengthened as compared to the exchange rate as of December 31, 2006, and as a result a gain to comprehensive income was recognized. Additionally, translation gains and losses with respect to long-term subordinated inter-company loans with the parent company are charged to other comprehensive income. No deferred tax benefit has been recorded on the comprehensive income in regard to the long-term inter-company transactions with the parent company, as the repayment of any equity investment is not anticipated in the foreseeable future.

***Segment Reporting***

The Company primarily operates in one industry segment, the production and sale of alcoholic beverages. These activities are conducted by the Company's subsidiaries in Poland and Hungary. Substantially all revenues, operating profits and assets relate to this business. CEDC assets (excluding inter-company loans and investments) located in the United States of America represent less than 1% of consolidated assets.





**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

***Net Income per Common Share***

Net income per common share is calculated in accordance with SFAS No. 128, "Earnings per Share". Basic earnings per share (EPS) are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the year. The stock options and warrants discussed in Note 10 were included in the computation of diluted earnings per common share (Note 15).

***Recently Issued Accounting Pronouncements***

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company has implemented certain provisions of this pronouncement and is not expecting any material impact that the full implementation of SFAS 157 would have on the consolidated financial statements when adopted.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company January 1, 2008. The Company is not expecting the implementation of SFAS 157 to have any material impact on the consolidated financial statements when adopted.

In December 2007, the FASB issued SFAS No. 141-R, "Business Combinations". This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is business combinations in the year ending November 30, 2010 for the Company. The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51". This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which for the Company is the year ending November 30, 2010 and the interim periods within the fiscal year. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. This standard currently does not impact us as we have full controlling interest of all of our subsidiaries, however this standard may impact the treatment of future acquisitions.

**2. Acquisitions**

On July 27, 2007, the Company signed the final Share Purchase Agreement to acquire 100% of the outstanding shares of PHS Sp. z o.o. "PHS", a leading Polish distributor of alcoholic beverages. The total purchase price of approximately \$8.4 million was funded through a combination of 80% cash and 20% shares of common stock of CEDC.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

On July 16, 2007, the Company signed a Letter of Intent to acquire a significant majority interest in a company in Russia holding various alcoholic beverage production and distribution assets, including the trademark rights for the *Parliament* brand in Russia. The Letter of Intent is subject to the execution of definitive agreements, which would be subject to customary closing conditions. The acquisition is currently expected to close during the first quarter of 2008 and will be financed through a combination of cash, debt and equity.

On March 31, 2007, the Company also acquired the distribution assets of a small distributor in Northeast Poland for a total consideration of \$1.2 million.

On February 20, 2007, the Company closed a tender for the remaining outstanding shares of common stock of Polmos Bialystok, obtaining an additional 2.54 million shares for approximately \$90.9 million, thus increasing the Company's ownership in Polmos Bialystok to 90.14%. In addition, the Company purchased additional shares on the market and performed a mandatory buyout to purchase an additional 9.79% of the outstanding shares of common stock of Polmos Bialystok S.A for approximately \$41.9 million. As of December 31, 2007 the Company's owned 99.93% of the outstanding common stock of Polmos.

In connection with the tender and the mandatory buyout, the Company partially financed the purchase price for the shares through a draw down on a credit facility for approximately \$112.8 million.

On November 29, 2006 the Company purchased an additional 338,741 shares of Polmos Bialystok S.A. as part of its tender offer for the remaining shares, in exchange for \$11.5 million. As a result of this tender offer the Company owned as of December 31, 2006 approximately 69% of Polmos Bialystok.

In addition, on September 15, 2006 the Company completed the acquisition of Classic, an alcohol distribution company in the northeast of Poland, for approximately \$1.4 million in cash. The Company also has completed other acquisitions for approximately \$2.2 million in cash and \$0.2 million in shares which were accounted for as business combinations.

On July 12, 2006 the Company finalized the Share Purchase Agreement with DELB Holding BV (part of Remy Cointreau SA) for the purchase of 100% of the share capital of Bols Hungary for \$14.0 million and the Royal trademark for \$7.6 million. The total acquisition price of \$21.6 million was funded entirely with cash.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

The fair value of the net assets acquired in connection with all 2007 acquisitions as of the acquisition date are:

<u>Fair value of assets purchased and liabilities assumed</u>	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
<b>Current Assets</b>		
Cash and cash equivalents . . . . .	\$ 265	\$ 1,270
Financial assets . . . . .	1	0
Accounts receivable, net of allowance for doubtful accounts . . . . .	3,572	7,328
Inventories . . . . .	7,871	4,098
Prepaid expenses and other current assets . . . . .	1,072	761
Deferred income taxes . . . . .	334	387
<b>Total Current Assets</b> . . . . .	<b>13,115</b>	<b>13,844</b>
Equipment, net . . . . .	1,357	2,267
Trademarks, net . . . . .	87,552	15,949
<b>Total Assets</b> . . . . .	<b>\$102,024</b>	<b>\$32,060</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade accounts payable . . . . .	\$ 7,093	\$ 4,026
Bank loans and overdraft facilities . . . . .	3,952	832
Income taxes payable . . . . .	—	—
Taxes other than income taxes . . . . .	262	2,743
Other accrued liabilities . . . . .	17,152	3,550
<b>Total Current Liabilities</b> . . . . .	<b>28,459</b>	<b>11,152</b>
Long-term debt, less current maturities . . . . .	193	0
Deferred tax—long term liability . . . . .	0	0
Minority interests . . . . .	(21,959)	(1,984)
<b>Net identifiable assets and liabilities</b> . . . . .	<b>95,331</b>	<b>22,892</b>
<b>Goodwill on acquisition</b> . . . . .	<b>47,647</b>	<b>14,570</b>
Consideration paid, satisfied in shares . . . . .	1,694	161
Consideration paid, satisfied in cash . . . . .	141,270	37,097
Consideration to be paid, presented in liabilities . . . . .	—	—
<b>Cash (acquired)</b> . . . . .	<b>\$ 265</b>	<b>\$ 1,270</b>
Net Cash Outflow . . . . .	\$141,005	\$35,828

The following table sets forth the unaudited pro forma results of operations of the Company for the twelve month periods ending December 31, 2007, 2006 and 2005. The unaudited pro forma results of operations give effect to the Company's acquisitions as if they occurred on January 1, 2007, 2006 and 2005. The unaudited pro forma results of operations are presented after giving effect to certain adjustments for depreciation, amortization of deferred financing costs, interest expense on the acquisition financing, and related income tax effects. The unaudited pro forma results of operations are based upon currently available information and certain assumptions that the Company believes are reasonable under the circumstances. The unaudited pro forma results of operations



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## CENTRAL EUROPEAN DISTRIBUTION CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)

Amounts in tables expressed in thousands, except per share information

do not purport to present what the Company's results of operations would actually have been if the aforementioned transactions had in fact occurred on such date or at the beginning of the period indicated, nor do they project the Company's financial position or results of operations at any future date or for any future period.

	Year ended December 31,		
	2007	2006	2005
Net sales .....	\$1,230,588	\$969,233	\$890,707
Net income .....	78,200	53,650	15,007
Net income per share data:			
Basic earnings per share of common stock .....	\$ 1.96	\$ 1.50	\$ 0.53
Diluted earnings per share of common stock .....	\$ 1.94	\$ 1.48	\$ 0.52

## 3. Trade Receivables and Allowances for Doubtful Accounts

Changes in the allowance for doubtful accounts during each of the three years in the period ended December 31, were as follows:

	Year ended December 31,		
	2007	2006	2005
Net trade receivables—excluding VAT .....	\$283,241	\$204,040	\$164,487
VAT (sales tax) .....	62,313	44,889	46,393
<b>Gross trade receivables .....</b>	<b>\$345,554</b>	<b>\$248,929</b>	<b>\$210,880</b>
Allowances for doubtful debts			
Balance, beginning of year .....	\$ 24,354	\$ 22,851	\$ 10,038
Effect of FX movement on opening balance .....	4,696	2,754	(834)
Provision for bad debts—reported in income statement .....	(249)	999	984
Charge-offs, net of recoveries .....	476	(2,378)	(4,088)
Increase in allowance from purchase of subsidiaries .....	—	128	16,751
Balance, end of year .....	\$ 29,277	\$ 24,354	\$ 22,851
<b>Trade receivables, net .....</b>	<b>\$316,277</b>	<b>\$224,575</b>	<b>\$188,029</b>

## 4. Property, plant and equipment

Property, plant and equipment, presented net of accumulated depreciation in the consolidated balance sheets, consists of:

	December 31,	
	2007	2006
Land and buildings .....	\$ 35,443	\$ 23,643
Equipment .....	56,780	34,576
Motor vehicles .....	20,985	15,391
Motor vehicles under lease .....	7,200	6,884
Computer hardware and software .....	16,817	12,021
Total gross book value .....	137,225	92,515
Less—Accumulated depreciation .....	(57,246)	(42,714)
<b>Total .....</b>	<b>\$ 79,979</b>	<b>\$ 49,801</b>



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## CENTRAL EUROPEAN DISTRIBUTION CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)

Amounts in tables expressed in thousands, except per share information

## 5. Goodwill

Goodwill, presented net of accumulated amortization in the consolidated balance sheets, consists of:

	December 31,	
	2007	2006
<b>Balance at January 1,</b> .....	<b>\$398,005</b>	<b>\$372,664</b>
Impact of foreign exchange .....	131,630	10,771
Additional purchase price adjustments .....	—	—
Acquisition through business combinations .....	47,647	14,570
<b>Balance at December 31,</b> .....	<b>\$577,282</b>	<b>\$398,005</b>

During the fourth quarter of 2007, the Company determined that the exchange rates that have been applied historically to translate goodwill from the functional currency of the acquired entity to the reporting currency were incorrectly applied. As such the gross balance of goodwill was updated during the fourth quarter of 2007, to properly reflect this impact of exchange rate movements and a one time revaluation of goodwill of \$131 million was recorded in the 2007 financial statements, with the corresponding offset to other comprehensive income. In accordance with the guidance provided by SAB 99, the Company has determined that this adjustment is not material based upon a combination of qualitative and quantitative factors.

## 6. Intangible Assets other than Goodwill

The major components of intangible assets are:

	December 31, 2007	December 31, 2006
<b>Non-amortizable intangible assets:</b>		
Trademarks .....	\$543,123	\$369,052
<b>Total</b>	<b>543,123</b>	<b>369,052</b>
<b>Amortizable intangible assets:</b>		
Trademarks .....	\$ 6,754	\$ 5,663
Customer relationships .....	1,913	1,228
Less accumulated amortization .....	(6,093)	(4,319)
<b>Total</b>	<b>2,574</b>	<b>2,572</b>
<b>Total intangible assets</b> .....	<b>\$545,697</b>	<b>\$371,624</b>

Following the tender for the additional shares of Polmos Bialystok in February and June 2007, the Company recorded an additional \$87.1 million of the carrying value of the trademarks to reflect the ownership increase from 69% to 99% as well as the updated trademarks valuation. This relates mainly to *Absolwent* and *Zubrówka* trademarks which have indefinite lives.

Management considers trademarks that are indefinite-lived assets to have high or market-leader brand recognition within their market segments based on the length of time they have existed, the comparatively high volumes sold and their general market positions relative to other products in their respective market segments. These trademarks include *Soplica*, *Zubrówka*, *Absolwent*, *Royal* and the rights for *Bols Vodka* in Poland, Hungary and Russia. Taking the above into consideration, as well as the evidence provided by analyses of vodka products life cycles, market studies, competitive and environmental trends, management believes that these brands will generate cash flows for an indefinite period of time, and that the useful lives of these brands are indefinite. In accordance with SFAS 142, intangible assets with an indefinite life are not amortized but are reviewed at least annually for impairment.



# **CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

## **NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)** **Amounts in tables expressed in thousands, except per share information**

Estimated aggregate future amortization expenses for intangible assets that have a definite life are as follows:

2008 .....	\$ 926
2009 .....	779
2010 .....	315
2011 .....	232
2012 and above .....	322
<b>Total .....</b>	<b><u>\$2,574</u></b>

Intangible assets are tested for impairment at least once a year at year end.

### **7. Accrued liabilities**

The major components of accrued liabilities are:

	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Operating accruals .....	\$28,672	\$22,119
Hedge valuation .....	27,520	19,991
Accrued interest .....	15,767	15,510
<b>Total .....</b>	<b><u>\$71,959</u></b>	<b><u>\$57,620</u></b>

The hedge valuation represents the mark to market valuation of the open fair value hedge as described further in Note 16. Accrued interest represents interest on the Senior Secured Notes as of December 31, 2007 which was subsequently paid on January 25, 2008.

### **8. Borrowings**

#### *Bank Facilities*

In June 2006, the Company consolidated all working capital facilities to three banks. These facilities are used primarily to support the Company's working capital requirements. These credit lines are only denominated in Polish Zloty.

As of December 31, 2007, \$73.0 million remained available under the Company's overdraft facilities. These overdraft facilities are renewed on an annual basis.

As of December 31, 2007, the company had utilized approximately \$123 million of a multipurpose credit line agreement in connection with a tender offer in Poland to purchase the remaining outstanding shares of Polmos Bialystok S.A. The Company's obligations under the credit line agreement are guaranteed through promissory notes by certain subsidiaries of the Company. The indebtedness under the credit line agreement bears interest at a rate equal to the one-month Warsaw Interbank Rate plus a margin of 1.2% and matures on March 31, 2009.

#### *Senior Secured Notes*

In connection with the Bols and Polmos Bialystok acquisitions, on July 25, 2005 the Company completed the issuance of €325 million 8% Senior Secured Notes due 2012 (the "Notes"). Interest is due semi-annually on the 25<sup>th</sup> of January and July, and the Notes are guaranteed on a senior basis by certain of the Company's





**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

subsidiaries. The Indenture governing our Notes contains certain restrictive covenants, including covenants limiting the Company's ability to: make certain payments, including dividends or other distributions, with respect to the share capital of the parent or its subsidiaries; incur or guarantee additional indebtedness or issue preferred stock; make certain investments; prepay or redeem subordinated debt or equity; create certain liens or enter into sale and leaseback transactions; engage in certain transactions with affiliates; sell assets or consolidate or merge with or into other companies; issue or sell share capital of certain subsidiaries; and enter into other lines of business.

In order to reduce the Company's borrowing costs, two redemptions of its Senior Secured Notes were completed during the first quarter of 2007 as described below.

On January 19, 2007, the Company completed a redemption of the Senior Secured Notes equal to €32.5 million. In addition to the payment of principal and accrued interest the Company paid a redemption premium of 8%. The repurchase was financed with the proceeds from the equity offerings completed in December 2006.

On March 29, 2007 the Company completed a second redemption of the Senior Secured Notes equal to €32.5 million. In addition to the payment of principal and accrued interest the Company paid a redemption premium of 8%. The repurchase was financed with the proceeds from the equity offerings completed in February 2007.

In line with above redemptions of the Senior Secured Notes the Company recognized a loss of \$2.8 million related to the portion of the Interest Rate Swap of \$32.5 million closed in connection with the January redemption and prepaid financing costs associated with retired debt for \$2.2 million relating to both redemptions.

As of December 31, 2007 and 2006, the Company had accrued interest included in other accrued liabilities of \$15.8 million and \$15.5 million respectively related to the Senior Secured Notes, with the next coupon due for payment on January 25, 2008. Total obligations under the Senior Secured Notes are shown net of deferred finance costs, amortized over the life of the borrowings using the effective interest rate method and fair value adjustments from the application of hedge accounting as shown in the table below:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Senior Secured Notes . . . . .	\$381,689	\$427,810
Fair value bond mark to market . . . . .	(28,204)	(20,452)
Unamortized portion of closed hedges . . . . .	(858)	(3,760)
Unamortized bond costs . . . . .	(8,329)	(10,164)
<b>Total . . . . .</b>	<b><u>\$344,298</u></b>	<b><u>\$393,434</u></b>

Total borrowings as disclosed in the financial statements are:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Short term bank loans and overdraft facilities for working capital . . . . .	\$ 42,785	\$ 24,656
<b>Total short term bank loans and overdraft facilities . . . . .</b>	<b>42,785</b>	<b>24,656</b>
Long term bank loans for share tender . . . . .	122,952	—
Long term obligations under Senior Secured Notes . . . . .	344,298	393,434
Other total long term debt, less current maturities . . . . .	—	8
<b>Total debt . . . . .</b>	<b><u>\$510,035</u></b>	<b><u>\$418,098</u></b>



# **CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

## **NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

	<u>December 31, 2007</u>
Principal repayments for the following years	
2008 .....	\$ 42,785
2009 .....	122,952
2010 .....	—
2011 .....	—
2012 and beyond .....	344,298
<b>Total .....</b>	<b><u>\$510,035</u></b>

### **9. Income and Deferred Taxes**

The Company operates in four tax jurisdictions: the United States of America, Poland, The Netherlands and Hungary. All Polish subsidiaries file their own corporate tax returns as well as account for their own deferred tax assets and liabilities. The Company does not file a tax return in Delaware based upon its consolidated income, but does file a return in Delaware based on the income statement for transactions occurring in the United States of America.

The company is currently generating tax loss carry forwards in the United States at a 35% tax rate, which has the effect of reducing the overall effective tax rate below the 19% Polish statutory rate.

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109”, effective January 1, 2007. Interpretation 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Interpretation 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Adoption of Interpretation 48 did not have a significant impact on the Corporation’s financial statements.

The Company has recorded a provision for the penalty and interest on penalty for a Polish subsidiary in the amount of approximately \$0.3 million. This provision was recognized during 2006 and was not related to the implementation of FASB Interpretation No. 48.

In August 2007, the Company received confirmation from the Polish tax office regarding a change in tax treatment for unrealized gains. As such the Company recognized a one time increase in a deferred tax asset during the period. Partially offsetting this was an increase in the provision for unutilized tax loss carry forwards in Poland from \$1 million to \$3.4 million, which resulted in a reduction of a deferred tax asset. The net difference was fully recognized in the current period resulting in an effective tax rate of 17% for the quarter as compared to a normal rate of 18%-19%.



# **CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

## **NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

The Company files income tax returns in the U.S., Poland, Hungary and the Netherlands. Tax liabilities of the Company's subsidiaries may be subject to examinations by the tax authorities for the year as indicated in the table below and subsequent years:

**Tax jurisdiction**

U.S. ....	2003
Poland ....	2001
Hungary ....	2001
The Netherlands ....	2001

Currently there is one ongoing examination of the Corporation's income tax returns for prior years in Polmos Bialystok. The Company does not expect any material issues to arise as a result of this tax examination. As the application of tax laws and regulations and transactions are susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed at a later date upon final determination by the tax authorities.

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Tax at Polish statutory rate</b> .....	<b>\$17,875</b>	<b>\$14,851</b>	<b>\$5,269</b>
Tax rate differences .....	(740)	(679)	(317)
Permanent differences .....	(1,225)	(186)	367
<b>Income tax expense</b> .....	<b><u>\$15,910</u></b>	<b><u>\$13,986</u></b>	<b><u>\$5,346</u></b>

Total Polish income tax payments during 2007, 2006 and 2005 were \$21,362, \$11,980 and \$4,580 respectively. CEDC has paid no U.S. income taxes and has net operating U.S. loss carry-forward totaling \$11,755.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2007	2006
Deferred tax assets		
Accrued expenses, deferred income and prepaid, net	\$ 10,567	\$ 7,041
Allowance for doubtful accounts receivable	3,749	1,763
Unrealized foreign exchange losses	—	16
Net operating loss carry-forward benefit,		
Expiring in 2010 – 2026	7,658	7,968
Net deferred tax asset	<u>\$ 21,974</u>	<u>\$ 16,788</u>
Deferred tax liability		
Trade marks	100,113	68,275
Unrealized foreign exchange gains	5,069	6,777
Timing differences in finance type leases	60	274
Investment credit	297	818
Deferred income	—	278
Net deferred tax liability	<u>\$ 105,539</u>	<u>\$ 76,422</u>
Total net deferred tax asset	21,974	16,788
Total net deferred tax liability	105,539	76,422
Total net deferred tax	(83,565)	(59,634)
Classified as		
Current deferred tax asset	5,141	5,336
Non-current deferred tax asset	11,407	3,305
Non-current deferred tax liability	(100,113)	(68,275)
Total net deferred tax	<u>(\$ 83,565)</u>	<u>(\$ 59,634)</u>

No deferred taxes have been recorded for the remaining undistributed earnings as the Company intends to permanently reinvest these earnings.

Tax losses in Poland can be carried forward for 5 years and tax losses in the United States can be earned forward for 20 years.

Tax liabilities (including corporate income tax, Value Added Tax (VAT), social security and other taxes) of the Company's Polish subsidiaries may be subject to examinations by the Polish tax authorities for up to five years from the end of the year the tax is payable. CEDC's U.S. federal income tax returns are also subject to examination by the U.S. tax authorities. As the application of tax laws and regulations, and transactions are susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed at a later date upon final determination by the tax authorities.

**10. Stock Option Plans and Warrants**

As of January 1, 2006, the Company adopted SFAS No. 123(R) "Share-Based Payment" requiring the recognition of compensation expense in the Condensed Consolidated Statements of Income related to the fair value of its employee share-based options. SFAS No. 123(R) revises SFAS No. 123 "Accounting for Stock-Based



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## CENTRAL EUROPEAN DISTRIBUTION CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)

## Amounts in tables expressed in thousands, except per share information

Compensation” and supersedes APB Opinion No. 25 “Accounting for Stock Issued to Employees”. SFAS No. 123(R) is supplemented by SEC Staff Accounting Bulletin (“SAB”) No. 107 “Share-Based Payment”. SAB No. 107 expresses the SEC staff’s views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations including the valuation of share-based payments arrangements.

The Company recognizes the cost of all employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. The Company has selected the modified prospective method of transition; accordingly, prior periods have not been restated.

SFAS No. 123(R) “Share-Based Payment” requires the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of employee share-based options. Determining the fair value of share-based awards at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Judgment is also required in estimating the amount of share-based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, share-based compensation expense could be materially impacted. Prior to adopting SFAS No. 123(R), the Company applied Accounting Principles Board (“APB”) Opinion No. 25, and related Interpretations, in accounting for its stock-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants in prior periods.

The Company’s 2007 Stock Incentive Plan (“Incentive Plan”) provides for the grant of stock options, stock appreciation rights, restricted stock and restricted stock units to directors, executives, and other employees (“employees”) of the Company and to non-employee service providers of the Company. Following a shareholder resolution in April 2003 and the stock splits of May 2003, May 2004 and June 2006, the Incentive Plan authorizes, and the Company has reserved for future issuance, up to 1,397,333 shares of Common Stock (subject to an anti-dilution adjustment in the event of a stock split, re-capitalization, or similar transaction). The Compensation Committee of the Board of Directors of the Company administers the Incentive Plan.

The option exercise price for stock options granted under the Incentive Plan may not be less than fair market value but in some cases may be in excess of the closing price of the Common Stock on the date of grant. The Company uses the stock option price based on the closing price of the Common Stock on the day before the date of grant if such price is not materially different than the opening price of the Common Stock on the day of the grant. Stock options may be exercised up to 10 years after the date of grant except as otherwise provided in the particular stock option agreement. Payment for the shares must be in cash, which must be received by the Company prior to any shares being issued. Stock options granted to directors and officers as part of an employee employment contract vest after 2 years. Stock options granted to general employees as part of a loyalty program vest after three years. The Incentive Plan was approved by CEDC shareholders during the annual shareholders meeting on April 30, 2007 to replace the Company’s 1997 Stock Incentive Plan (the “Old Stock Incentive Plan”), which expired in November 2007. The Stock Incentive Plan will expire in November 2017. The terms and conditions of the Stock Incentive Plan are substantially similar to those of the Old Stock Incentive Plan.

Before January 1, 2006 CEDC, the holding company, realized net operating losses and therefore an excess tax benefit (windfall) resulting from the exercise of the awards and a related credit to Additional Paid-in Capital (APIC) of \$2.2 million was not recorded in the Company’s books. The excess tax benefits and the credit to APIC for the windfall should not be recorded until the deduction reduces income taxes payable on the basis that cash tax savings have not occurred. The Company will recognize the windfall upon realization.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

A summary of the Company's stock option and restricted stock units activity, and related information for the period ended December 31, 2007 is as follows:

<u>Total Options</u>	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>
Outstanding at January 1, 2005 .....	1,095,297	\$ 20.12
Granted .....	259,578	\$ 35.68
Exercised .....	(434,375)	\$ 7.35
Forfeited .....	(30,950)	\$ 25.41
Outstanding at December 31, 2005 .....	889,550	\$ 25.64
Exercisable at December 31, 2005 .....	576,200	\$ 21.09
Outstanding at January 1, 2006 .....	889,550	\$ 25.64
Effect of Stock Split .....	444,776	(\$10.21)
Granted .....	303,000	\$ 26.55
Exercised .....	(305,613)	\$ 15.61
Forfeited .....	(11,813)	\$ 21.32
Outstanding at December 31, 2006 .....	1,319,900	\$ 19.31
Exercisable at December 31, 2006 .....	1,014,014	\$ 18.78
Outstanding at January 1, 2007 .....	1,319,900	\$ 19.31
Granted .....	266,250	\$ 30.84
Exercised .....	(272,475)	\$ 17.12
Forfeited .....	(60,638)	\$ 23.26
Outstanding at December 31, 2007 .....	1,253,037	\$ 22.02
Exercisable at December 31, 2007 .....	964,849	\$ 19.50

<u>Nonvested restricted stock units</u>	<u>Number of Restricted Stock Units</u>	<u>Weighted- Average Grant Date Fair Value</u>
Nonvested at January 1, 2007 .....	—	\$ —
Granted .....	37,930	\$34.71
Vested .....	—	\$ —
Forfeited .....	(2,100)	\$34.51
Nonvested at December 31, 2007 .....	35,830	\$34.73

During 2007, the range of exercise prices for outstanding options was \$1.13 to \$44.15. During 2007, the weighted average remaining contractual life of options outstanding was 5.5 years. Exercise prices for options exercisable as of December 31, 2007 ranged from \$1.13 to \$29.14. The Company has also granted 37,930 restricted stock units to its employees priced at average of \$34.71.

The Company has issued stock options to employees under stock based compensation plans. Stock options are issued at the current market price, subject to a vesting period, which varies from one to three years. As of December 31, 2007, the Company has not changed the terms of any outstanding awards.

During the twelve months ended December 31, 2007, the Company recognized compensation cost of \$1.9 million and a related deferred tax asset of \$0.36 million.





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## CENTRAL EUROPEAN DISTRIBUTION CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)

## Amounts in tables expressed in thousands, except per share information

As of December 31, 2007, there was \$5.0 million of total unrecognized compensation cost related to non-vested stock options and restricted stock units granted under the Plan. The costs are expected to be recognized over a weighted average period of 18 months through 2008-2009.

Total cash received from exercise of options during the twelve months ended December 31, 2007 amounted to \$4.0 million.

For the twelve months period ended December 31, 2007, the compensation expense related to all options was calculated based on the fair value of each option grant using the binomial distribution model. The Company has never paid cash dividends and does not currently have plans to pay cash dividends, and thus has assumed a 0% dividend yield. Expected volatilities are based on average of implied and historical volatility projected over the remaining term of the options. The expected life of stock options is estimated based on historical data on exercise of stock options, post-vesting forfeitures and other factors to estimate the expected term of the stock options granted. The risk-free interest rates are derived from the U.S. Treasury yield curve in effect on the date of grant for instruments with a remaining term similar to the expected life of the options. In addition, the Company applies an expected forfeiture rate when amortizing stock-based compensation expenses. The estimate of the forfeiture rates is based primarily upon historical experience of employee turnover. As individual grant awards become fully vested, stock-based compensation expense is adjusted to recognize actual forfeitures. The following weighted-average assumptions were used in the calculation of fair value:

	2007	2006
Fair Value .....	\$ 10.03	\$7.33
Dividend Yield .....	0%	0%
Expected Volatility .....	30.5% - 38.4%	31.9 - 50.7%
Weighted Average Volatility .....	37.1%	33.9%
Risk Free Interest Rate .....	4.7% - 5.1%	4.3 - 5.1%
Expected Life of Options from Grant .....	3.2	3.2

**11. Commitments and Contingencies**

The Company is involved in litigation from time to time and has claims against it in connection with matters arising in the ordinary course of business. In the opinion of management, the outcome of these proceedings will not have a material adverse effect on the Company's operations.

As part of the Share Purchase Agreement related to the October 2005 Polmos Bialystok Acquisition, the Company is required to ensure that Polmos Bialystok will make investments of at least 77.5 million Polish Zloty (approximately \$23 million based on the then-current exchange rate) during the five years after the acquisition was consummated. As of December 31, 2007, the Company has invested 45.8 million Polish Zloty (approximately \$18.8 million) in Polmos Bialystok.

As of December 31, 2007, the Company has secured letters for credit for the construction of rectification lines with a cash deposit of \$5.2 million. Moreover, custom liabilities with the local tax office for imported products have been secured by cash held by the bank for \$1.6 million.

*Operating Leases and Rent Commitments*

In February 2004, the Company entered into a non cancelable operating lease agreement commencing May 1, 2004 for its main warehouse and office in Warsaw, which stipulated monthly payments of \$108,000 per month. This agreement was signed for a seven-year period.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

In September 2006, the Company entered into a non cancelable operating lease agreement commencing October 1, 2006 for its headquarters in Warsaw, which stipulated monthly payments of \$52,000. This agreement was signed for a four-year period.

The Company also has rental agreements for all of the regional offices and warehouse space. Monthly rentals range from approximately \$2,000 to \$11,670. All of the regional office and warehouse leases can be terminated by either party within two or three month's prior notice.

The following is a schedule by years of the future rental payments under the non-cancelable operating lease as of December 31, 2007:

2008 .....	\$ 5,241
2009 .....	5,145
2010 .....	3,231
2011 .....	1,828
Thereafter .....	1,622
<b>Total .....</b>	<b><u>\$17,067</u></b>

During the fourth quarter of 2007, the Company continued its policy of renewing its transportation fleet by way of capital leases. The future minimum lease payments for the assets under capital lease as of December 31, 2007 are as follows:

2008 .....	\$1,759
2009 .....	2,708
2010 .....	—
<b>Gross payments due .....</b>	<b><u>\$4,467</u></b>
Less interest .....	(358)
<b>Net payments due .....</b>	<b><u>\$4,109</u></b>

*Supply contracts*

The Company has various agreements covering its sources of supply, which, in some cases, may be terminated by either party on relatively short notice. Thus, there is a risk that a portion of the Company's supply of products could be curtailed at any time.

In 2007, over 5% of the Company's net sales resulted from sales of products purchased from the following companies: Polmos Lublin (7%), Brown Forman (6%), Polmos Zielona Góra (5%) and Kompania Piwowarska (5%).

**12. Stockholders Equity**

In February 2007, the Company completed a public offering of 1,553,571 shares of common stock at an offering price of \$28 per share. The offering raised \$42.3 million net of expenses, which was used to repurchase an additional portion of the Senior Secured Notes on March 30, 2007.



# **CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

## **NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

According to the share sale agreement with Takirra Investment Corporation, Rémy Cointreau S.A., and Botapol Management B.V. (an indirect subsidiary of Rémy) to acquire 100% of the outstanding capital stock of Botapol Holding B.V., the Company was entitled to the potential reimbursement of \$5.0 million to be paid in cash if the weighted average of the closing price of the Company's common stock exceeded \$27.1 per share at any time during the period from twelve to eighteen months after the closing of the Bols Acquisition. This condition was met, and the Company was reimbursed with \$5.0 million recorded in additional paid in capital.

### **13. Interest income / (expense)**

For the twelve months ended December 31, 2007 and 2006 respectively, the following items are included in Interest income / (expense):

	<b>Twelve months ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Interest income .....	\$ 5,463	\$ 4,120
Interest expense .....	(41,292)	(35,870)
Total interest (expense), net .....	(\$ 35,829)	(\$ 31,750)

### **14. Other financial income / (expense)**

For the twelve months ended December 31, 2007 and 2006, the following items are included in Other financial income / (expense):

	<b>Twelve months ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Foreign exchange impact related to Senior Secured Notes financing .....	\$23,940	\$ 3,274
Cost of bank guarantee for tender .....	(349)	—
Premium for early debt retirement .....	(6,940)	—
Net mark to market valuation adjustment on fair value hedge and Senior Secured Notes . . .	—	363
Gain on closed CIRS contracts (described in Note 16, below) .....	—	13,118
Write-off of hedge associated with retired debt .....	(2,757)	—
Write-off of financing costs associated with retired debt .....	(2,167)	—
Other foreign exchange gains / (losses) .....	1,867	457
Total other financial income / (expense), net .....	\$13,594	\$17,212



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

Amounts in tables expressed in thousands, except per share information

**15. Earnings per share**

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

	Year ended December 31,		
	2007	2006	2005
Basic:			
Net income .....	\$77,102	\$55,450	\$20,268
Weighted average shares of common stock outstanding .....	39,871	35,799	28,344
Basic earnings per share .....	<u>\$ 1.93</u>	<u>\$ 1.55</u>	<u>\$ 0.72</u>
Diluted:			
Net income .....	\$77,102	\$55,450	\$20,268
Weighted average shares of common stock outstanding .....	39,871	35,799	28,344
Net effect of dilutive employee stock options based on the treasury stock method .....	540	338	476
<b>Totals</b> .....	<b>40,411</b>	<b>36,137</b>	<b>28,820</b>
Diluted earnings per share .....	<u>\$ 1.91</u>	<u>\$ 1.53</u>	<u>\$ 0.70</u>

Contingent shares for acquisitions and employee stock options granted have been included in the above calculations of diluted earnings per share since the exercise price is less than the average market price of the common stock during the twelve month periods ended December 31, 2007, 2006 and 2005.

**16. Financial Instruments**

*Financial Instruments and Their Fair Values*

Financial instruments consist mainly of cash and cash equivalents, accounts receivable, accounts payable, bank loans, overdraft facilities and long-term debt. All of the monetary assets represented by these financial instruments are located in Poland. Consequently, they are subject to currency translation risk when reporting in U.S. Dollars.

*Derivative financial instruments*

The Company is exposed to market movements in foreign currency exchange rates that could affect the Company's results of operations and financial condition. In accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value.

The fair values of the Company's derivative instruments can change with fluctuations in interest rates and/or currency rates and are expected to offset changes in the values of the underlying exposures. The Company's derivative instruments are held to hedge economic exposures. The Company follows internal policies to manage interest rate and foreign currency risks, including limitations on derivative market-making or other speculative activities.

To qualify for hedge accounting under SFAS No. 133, the details of the hedging relationship must be formally documented at the inception of the arrangement, including the risk management objective, hedging



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

strategy, hedged item, specific risk that is being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness will be measured. The derivative must be highly effective in offsetting either changes in the fair value or cash flows, as appropriate, of the risk being hedged.

Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively. The Company discontinues hedge accounting prospectively when (1) the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Fair value hedges are hedges that offset the risk of changes in the fair values of recorded assets, liabilities and firm commitments. The Company records changes in the fair value of derivative instruments which are designated and deemed effective as fair value hedges, in earnings offset by the corresponding changes in the fair value of the hedged items.

In September 2005, the Company entered into a coupon swap arrangement which exchanges a fixed Euro based coupon of 8%, with a variable Euro based coupon (IRS) based upon the 6 month Euribor rate plus a margin. The hedge is accounted for as a fair value hedge according to SFAS 133 and is tested for effectiveness on a quarterly basis using the long haul method. Under this method, as long as the hedge is deemed highly effective both the fair value of the hedge and the hedge item are marked to market with the net impact recorded as gain or loss in the income statement. For the twelve months ended December 31, 2007, the company recorded a net gain of \$178,000. In September 2005, the Company entered into a second hedge that exchanged the variable Euro coupon with a variable Polish Zloty coupon (CIRS). However, due to the continued strength of the Polish economy and currency the Company closed this swap contract. The hedge did not qualify for hedge accounting and therefore the changes in fair value were reflected in the results of operations.

In February 2007 and December 2006, a portion of the IRS hedge was closed and a new hedging relationship was created. The mark to market valuation of the closed hedges at the time was frozen and is being amortized over the remaining useful life of the hedged item. The hedge closure in December 2006 was related to the part of the Senior Secured Notes repurchased in January 2007. Consequently, the amount was written off in January 2007 following the repurchase. As of December 31, 2007, there is an unamortized asset of \$0.9 million recorded as an adjustment to the valuation of the Senior Secured Notes.

**17. Related Party Transactions**

In January of 2005, the Company entered into a rental agreement for a facility located in northern Poland, which is 33% owned by the Company's Chief Operating Officer. The monthly rent to be paid by the Company for this location is approximately \$16,300 per month and relates to facilities to be shared by two subsidiaries of the Company.

During the twelve months of 2007, the Company made sales to a restaurant which is partially owned by the Chief Executive Officer of the Company. All sales were made on normal commercial terms, and total sales for the twelve months ended December 31, 2007 and 2006 were approximately \$129,000 and \$106,600.



**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS—(Continued)**

**Amounts in tables expressed in thousands, except per share information**

**18. Subsequent Events**

On February 27, 2007 the Company announced that it has signed Heads of Terms, outlining the main terms on which CEDC would invest in the Whitehall Group in Russia.

Subject to the execution of a definitive agreement, CEDC proposes to acquire a 49.9% voting stake and a 75% economic interest in the Whitehall Group at closing, with an option to acquire, subject to certain conditions, the remaining interests in the Whitehall Group no earlier than December 31, 2013. The Whitehall Group will continue to be led by its founder and CEO Mr. Mark Kaouffman, who will retain voting and management control over the entire Whitehall Group. The proposed investment is subject to satisfactory confirmatory due diligence; the negotiation and execution of a definitive acquisition agreement subject to customary closing conditions, including anti-trust approval, if required; and approval by the CEDC board.

The Whitehall Group is the exclusive importer for many leading wine companies, including, among others, Concha y Toro and Constellation Brands as well as certain Gruppo Campari brands. The Whitehall Group also imports and distributes on an exclusive basis brands such as Hennessy, Dom Pérignon, Moët & Chandon and Veuve Clicquot among other brands from the Moët Hennessey portfolio. In addition to its import activities, the Whitehall Group has extensive distribution coverage with its own distribution centers in Moscow, Saint Petersburg, Rostov and Siberia as well as an upscale wine and spirit retail network in Moscow.

**19. Quarterly financial information (Unaudited)**

The Company's net sales have been historically seasonal with an average of over 30% of the net sales occurring in the fourth quarter. The table below demonstrates the movement and significance of seasonality in income statement. For further information, please refer to Item 6. Selected Financial Data.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2007	2006	2007	2006	2007	2006	2007	2006
Net Sales . . . . .	\$ 228,214	\$190,117	\$268,635	\$222,029	\$299,599	\$233,902	\$393,374	\$298,060
Seasonality . . . . .	19.2%	20.1%	22.6%	23.5%	25.1%	24.8%	33.1%	31.6%
Gross Profit . . . .	46,317	37,461	55,554	45,779	61,707	50,704	85,184	64,443
Gross Profit % . .	20.3%	19.7%	20.7%	20.6%	20.6%	21.7%	21.7%	21.6%
Operating								
Income . . . . .	18,915	14,572	25,149	22,031	28,410	24,042	45,611	30,937
Net Income /								
(Loss) . . . . .	(\$ 5,176)	\$ 7,815	\$ 19,971	\$ 109	\$ 17,020	\$ 15,438	\$ 45,287	\$ 32,088
Basic earning per								
share . . . . .	(\$ 0.13)	\$ 0.22	\$ 0.50	\$ 0.00	\$ 0.42	\$ 0.43	\$ 1.13	\$ 0.88
Diluted earning								
per share . . . . .	(\$ 0.13)	\$ 0.22	\$ 0.49	\$ 0.00	\$ 0.42	\$ 0.43	\$ 1.11	\$ 0.87

Seasonality is calculated as a percent of full year sales recognized in the relevant quarter.



**20. Geographic Data**

Net sales and long-lived assets, by geographic area, consisted of the following for the three years ended December 31, 2007, 2006 and 2005:

(In thousands)	Year ended December 31,		
	2007	2006	2005
Net Sales to External Customers (a):			
United States .....	\$ 7,086	\$ 463	\$ 176
International			
Poland .....	1,139,431	920,461	748,403
Hungary .....	37,221	17,816	—
Other .....	6,084	5,368	836
Total international .....	1,182,736	943,645	749,239
<b>Total .....</b>	<b>\$1,189,822</b>	<b>\$944,108</b>	<b>\$749,415</b>
Long-lived assets (b):			
United States .....	\$ 9	\$ 18	\$ 23
International			
Poland .....	636,696	424,983	360,287
Hungary .....	1,088	1,789	—
Total international .....	637,784	426,772	360,287
<b>Total consolidated long-lived assets .....</b>	<b>\$ 637,793</b>	<b>\$426,790</b>	<b>\$360,310</b>

(a) Net sales to external customers based on the location to which the sale was delivered.

(b) Long-lived assets primarily consist of property, plant and equipment and trademarks

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There were no changes in or disagreements with the accountants within the past two years.

**Item 9A. Control and Procedures.**

*Disclosure Controls and Procedures.* Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934) refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

*Management's Report on Internal Control over Financial Reporting.* The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15(d)-15(f) of the Securities Exchange Act of 1934). Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control—Integrated Framework".



The Company's management has excluded PHS Sp. z o.o. from its assessment of internal controls over financial reporting as of December 31, 2007, because this company was acquired by the Company in purchase business combinations during the year ended December 31, 2007. This company is a subsidiary of the Company that is controlled by ownership of a majority voting interest, whose total assets and total revenues represent 0.97% and 2.98%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2007.

Based on its assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

Based upon the evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

*Inherent Limitations in Internal Control over Financial Reporting.* The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, the Company's disclosure controls and procedures are designed to provide reasonable assurance that the controls and procedures will meet their objectives.

*Changes to Internal Control over Financial Reporting.* The Chief Executive Officer and the Chief Financial Officer conclude that, during the most recent fiscal quarter, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.



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### PART III

#### Item 10. Directors and Executive Officers of the Registrant.

The information regarding our executive officers and directors required by this item is incorporated into this annual report by reference to our proxy statement for the annual meeting of stockholders to be held on May 1, 2008. We will file our proxy statement for our 2008 annual meeting of stockholders within 120 days of December 31, 2007, our fiscal year-end.

#### Item 11. Executive Compensation.

The information regarding executive compensation required by this item is incorporated into this annual report by reference to our proxy statement for the annual meeting of stockholders to be held on May 1, 2008. We will file our proxy statement for our 2008 annual meeting of stockholders within 120 days of December 31, 2007, our fiscal year-end.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information regarding security ownership of certain beneficial owners and management is incorporated into this annual report by reference to our proxy statement for the annual meeting of stockholders to be held on May 1, 2008. We will file our proxy statement for our 2008 annual meeting of stockholders within 120 days of December 31, 2007, our fiscal year-end.

#### Item 13. Certain Relationships and Related Transactions.

The information regarding certain relationships and related transactions required by this item is incorporated into this annual report by reference to our proxy statement for the annual meeting of stockholders to be held on May 1, 2008. We will file our proxy statement for our 2008 annual meeting of stockholders within 120 days of December 31, 2007, our fiscal year-end.

#### Item 14. Principal Accountant Fees and Services.

The information regarding principal accountant fees and services required by this item is incorporated into this annual report by reference to the proxy statement for the annual meeting of stockholders to be held on May 1, 2008. We will file our proxy statement for our 2008 annual meeting of stockholders within 120 days of December 31, 2007, our fiscal year-end.



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<b>CENTRAL EUROPEAN DIS</b>	RR Donnelley ProFile	CHMFBUAC350648 9.9.26	WCRlehmI0cm	29-Feb-2008 08:45 EST	<b>38634 TX 76</b>	3*
<b>FORM 10-K WITH WRAP</b>	START PAGE		TAM	CLN	PS PMT	1C

## PART IV

### Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a)(1) The following consolidated financial statements of the Company and report of independent auditors are included in Item 8 of this Annual Report on Form 10-K.

Report of Independent Auditors

Consolidated Balance Sheets at December 31, 2006 and 2007

Consolidated Statements of Income for the years ended December 31, 2005, 2006 and 2007

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2005, 2006 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2006 and 2007

Notes to Consolidated Financial Statements

(a)(2) Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission either have been included in the Company's consolidated financial statements or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
(Registrant)

By: /s/ WILLIAM V. CAREY  
**William V. Carey**  
Chairman, President and Chief Executive Officer

Date: February 29, 2008

## POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints William V. Carey and Chris Biedermann, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file, any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ WILLIAM V. CAREY</u> <b>William V. Carey</b>	Chairman, President and Chief Executive Officer (principal executive officer)	February 29, 2008
<u>/s/ CHRISTOPHER BIEDERMANN</u> <b>Christopher Biedermann</b>	Chief Financial Officer (principal financial and accounting officer)	February 29, 2008
<u>/s/ DAVID BAILEY</u> <b>David Bailey</b>	Director	February 29, 2008
<u>/s/ N. SCOTT FINE</u> <b>N. Scott Fine</b>	Director	February 29, 2008
<u>/s/ TONY HOUSH</u> <b>Tony Housh</b>	Director	February 29, 2008
<u>/s/ ROBERT P. KOCH</u> <b>Robert P. Koch</b>	Director	February 29, 2008
<u>/s/ JAN W. LASKOWSKI</u> <b>Jan W. Laskowski</b>	Director	February 29, 2008
<u>/s/ MARKUS SIEGER</u> <b>Markus Sieger</b>	Director	February 29, 2008



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(a)(3) The following exhibits are either provided with this Form 10-K or are incorporated herein by reference.

<b>Exhibit Number</b>	<b>Exhibit Description</b>
2.1	Contribution Agreement among Central European Distribution Corporation, William V. Carey, William V. Carey Stock Trust, Estate of William O. Carey and Jeffrey Peterson dated November 28, 1997 (filed as Exhibit 2.1 to the Registration Statement on Form SB-2, File No. 333-42387, with the SEC on December 17, 1997 (the "1997 Registration Statement"), and incorporated herein by reference).
2.2	Investment Agreement for Damianex S.A. dated April 22, 2002, among Carey Agri International Poland Sp. z o.o., Central European Distribution Corporation, Michael Ciapala, Boguslaw Barnat and Iwona Barnat (filed as Exhibit 2 to the Current Report on Form 8-K/A filed with the SEC on May 14, 2002, and incorporated herein by reference).
2.3	Share Purchase Agreement for AGIS S.A. dated April 24, 2002, among Carey Agri International Poland Sp. z o.o., Central European Distribution Corporation, Jacek Luczak and Slawomir Wisniewski (filed as Exhibit 2.2 to the Current Report on Form 8-K/A filed with the SEC on June 3, 2002, and incorporated herein by reference).
2.4	Share Purchase Agreement for Onufry S.A. dated October 15, 2002, among Carey Agri International Poland Sp. z o.o., Central European Distribution Corporation, Zbigniew Trafalski and Henryk Gawin (filed as Exhibit 2.4 to the Annual Report on Form 10-K filed with the SEC on March 17, 2003, and incorporated herein by reference).
2.5	Share Purchase Agreement for Dako Sp. z o.o. dated April 16, 2003, among Carey Agri International Poland Sp. z o.o., Central European Distribution Corporation, Wacław Dawidowicz and Mirosław Sokalski (filed as Exhibit 2.1 to the Quarterly Report on Form 10-Q filed with the SEC on May 15, 2003, and incorporated herein by reference).
2.6	Share Purchase Agreement for Panta Hurt Sp. z o.o. dated September 5, 2003, among Carey Agri International Poland Sp. z o.o., Central European Distribution Corporation, Włodzimierz Szydłarski, Sylwester Zakrzewski and Wojciech Piatkowski (filed as Exhibit 2.6 to the Quarterly Report on Form 10-Q filed with the SEC on November 14, 2003, and incorporated herein by reference).
2.7	Share Purchase Agreement for Multi-Ex S.A. dated November 14, 2003, among Carey Agri International Poland Sp. z o.o., Piotr Pabianski and Ewa Maria Pabianska (filed as Exhibit 2.7 to the Annual Report on Form 10-K filed with the SEC on March 15, 2004, and incorporated herein by reference).
2.8	Share Purchase Agreement for Multi-Ex S.A. dated November 14, 2003, between Central European Distribution Corporation and Piotr Pabianski (filed as Exhibit 2.8 to the Annual Report on Form 10-K filed with the SEC on March 15, 2004, and incorporated herein by reference).
2.9	Share Purchase Agreement for Multi-Ex S.A. dated December 18, 2003, between Central European Distribution Corporation and Piotr Pabianski (filed as Exhibit 2.9 to the Annual Report on Form 10-K filed with the SEC on March 15, 2004, and incorporated herein by reference).
2.10	Share Sale Agreement for Miro sp. z o.o. dated May 14, 2004, among Central European Distribution Corporation, Mirosławem Grzadkowskim, Halina Grzadkowska, Jackiem Grzadkowskim and Kinga Grzadkowska (filed as Exhibit 2.10 to the Quarterly Report on Form 10-Q filed with the SEC on May 10, 2004, and incorporated herein by reference).
2.11	Conditional Share Sale Agreement for Delikates Sp. z o.o. dated April 28, 2005 by and among Carey Agri International Poland Sp. z o.o., Central European Distribution Corporation, Barbara Jernas, Szymon Jernas, Magdalena Namysl and Karol Jaskula (filed as Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on May 4, 2005 and incorporated herein by reference).





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<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.12	Share Sale Agreement, dated June 27, 2005, by and among Rémy Cointreau S.A., Botapol Management B.V., Takirra Investment Corporation N.B., Central European Distribution Corporation and Carey Agri International Poland Sp. z o.o. (filed as Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on July 1, 2005 and incorporated herein by reference).
2.15	Share Purchase Agreement, dated July 11, 2005, by and among the State Treasury of the Republic of Poland, Carey Agri International-Poland Sp. z o.o. and Central European Distribution Corporation (filed as Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on July 15, 2005 and incorporated herein by reference).
2.16	Conditional Share Sale Agreement for Imperial Sp. z o.o. dated August 16, 2005 by and among Carey Agri International Poland Sp. z o.o., Central European Distribution Corporation, and Tadeusz Walkuski (filed as Exhibit 2.11 to the Quarterly Report on Form 10-Q filed with the SEC on November 9, 2005 and incorporated herein by reference).
3.1	Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Quarterly Report of Form 10-Q filed with the SEC on August 8, 2006 and incorporated herein by reference).
3.2	Amended and Restated Bylaws (filed as Exhibit 99.3 to the Periodic Report on Form 8-K filed with the SEC on May 3, 2006, and incorporated herein by reference). Exhibit Number Exhibit Description
4.1	Form of Common Stock Certificate (filed as Exhibit 4.1 to the 1997 Registration Statement and incorporated herein by reference).
4.2	Indenture, dated July 25, 2005, by and among Central European Distribution Corporation, Carey Agri International-Poland Sp. z o.o., Onufry S.A., Multi-Ex S.A., Astor Sp. z o.o., Polskie Hurtownie Alkoholi Sp. z o.o., MTC Sp. z o.o., Przedsiębiorstwo Dystrybucji Alkoholi Agis S.A., Dako-Galant Przedsiębiorstwo Handlowo Produkcyjne Sp. z o.o., Damianex S.A., PWW Sp. z o.o. and Miro Sp. z o.o., as Guarantors, The Bank of New York, as Trustee, Principal Paying Agent, Registrar and Transfer Agent, and ING Bank N.V., London Branch, as Note Security Agent (filed as Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on July 25, 2005 and incorporated herein by reference).
4.2	First Supplemental Indenture, dated August 31, 2005, by and among Central European Distribution Corporation, as Issuer, Carey Agri International-Poland Sp. z o.o., Onufry S.A., Multi-Ex S.A., Astor Sp. z o.o., Polskie Hurtownie Alkoholi Sp. z o.o., MTC Sp. z o.o., Przedsiębiorstwo Dystrybucji Alkoholi Agis S.A., Dako-Galant Przedsiębiorstwo Handlowo Produkcyjne Sp. z o.o., Damianex S.A., PWW Sp. z o.o. and Miro Sp. z o.o., as Initial Guarantors, Botapol Holding B.V. and Bols Sp. z o.o., as Additional Guarantors, The Bank of New York, as Trustee, and ING Bank N.V., London Branch, as Note Security Agent (filed as Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on September 2, 2005 and incorporated herein by reference).
4.3	Second Supplemental Indenture, dated as of March 30, 2006 among Central European Distribution Corporation, as Issuer, Carey Agri International-Poland Sp. z o.o., Onufry S.A., Multi-Ex S.A., Astor Sp. z o.o., Polskie Hurtownie Alkoholi Sp. z o.o., MTC Sp. z o.o., Przedsiębiorstwo Dystrybucji Alkoholi Agis S.A., Dako-Galant Przedsiębiorstwo Handlowo Produkcyjne Sp. z o.o., Damianex S.A., PWW Sp. z o.o. and Miro Sp. z o.o., as Initial Guarantors, Botapol Holding B.V. and Bols Sp. z o.o., as Additional Guarantors, The Bank of New York, as Trustee, and ING Bank N.V., London Branch, as Note Security Agent (filed as Exhibit 4.1 to the Quarterly Report on Form 10-Q filed with the SEC on August 8, 2006 and incorporated herein by reference).



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<u>Exhibit Number</u>	<u>Exhibit Description</u>
4.4	Third Supplemental Indenture, dated as of July 7, 2006 among Central European Distribution Corporation, as Issuer, Carey Agri International-Poland Sp. z o.o., Onufry S.A., Multi-Ex S.A., Astor Sp. z o.o., Polskie Hurtownie Alkoholi Sp. z o.o., MTC Sp. z o.o., Przedsiębiorstwo Dystrybucji Alkoholi Agis S.A., Dako-Galant Przedsiębiorstwo Handlowo Produkcyjne Sp. z o.o., Damianex S.A., PWW Sp. z o.o., Miro Sp. z o.o., Botapol Holding B.V. and Bols Sp. z o.o., as Guarantors, Delikates Sp. z o.o., Panta Hurt Sp. z o.o., Polnis Dystrybucja Sp. z o.o., Imperial Sp. z o.o. and Krokus Sp. z o.o., as New Guarantors, The Bank of New York, as Trustee, and ING Bank N.V., London Branch, as Note Security Agent (filed as Exhibit 4.2 to the Quarterly Report on Form 10-Q filed with the SEC on August 8, 2006 and incorporated herein by reference).
10.1	2007 Stock Incentive Plan (filed as Exhibit A to the definitive Proxy Statement as filed with the SEC on March 27, 2007, and incorporated herein by reference).
10.2*	Form of Stock Option Agreement with Directors under 2007 Stock Incentive Plan.
10.3*	Form of Stock Option Agreement with Officers under 2007 Stock Incentive Plan.
10.4	Employment Agreement dated as of August 1, 2004, between William V. Carey and Central European Distribution Corporation (filed as Exhibit 10.2 to the Annual Report on Form 10-K filed with the SEC on March 15, 2005, and incorporated herein by reference).
10.5	Annex, dated January 24, 2007, to the Employment Agreement dated as of August 1, 2004, between William V. Carey and Central European Distribution Corporation (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 24, 2007, and incorporated herein by reference).
10.6	Employment Agreement dated as of September 16, 2004, between Evangelos Evangelou and Central European Distribution Corporation (filed as Exhibit 10.4 to the Annual Report on Form 10-K filed with the SEC on March 15, 2005, and incorporated herein by reference).
10.7	Annex, dated January 24, 2007, to the Employment Agreement dated as of September 16, 2004, between Evangelos Evangelou and Central European Distribution Corporation (filed as Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on January 24, 2007, and incorporated herein by reference).
10.8	Employment Agreement dated as of January 17, 2005, between Central European Distribution Corporation and Chris Biedermann (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on December 7, 2004, and incorporated herein by reference).
10.9	Annex to January 17, 2005 Employment Agreement dated as of January 1, 2006, between Central European Distribution Corporation and Chris Biedermann (filed as Exhibit 10.51 to the Annual Report on Form 10-K filed with the SEC on March 14, 2006 and incorporated herein by reference).
10.10	Annex, dated January 24, 2007, to the Employment Agreement dated as of January 17, 2005, between Christopher Biedermann and Central European Distribution Corporation (filed as Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on January 24, 2007, and incorporated herein by reference).
10.11	Employment Agreement dated as of October 1, 2004, between Central European Distribution Corporation and James Archbold (filed as Exhibit 10.6 to the Annual Report on Form 10-K filed with the SEC on March 15, 2005, and incorporated herein by reference).
10.12	Annex, dated January 24, 2007, to the Employment Agreement dated as of October 1, 2004, between James Archbold and Central European Distribution Corporation (filed as Exhibit 10.4 to the Current Report on Form 8-K filed with the SEC on January 24, 2007, and incorporated herein by reference).
10.13	Executive Bonus Plan (filed as Exhibit 10.13 to the annual Report on Form 10-K filed with the SEC on March 15, 2007, and incorporated by reference).



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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.14	Lease Agreement for warehouse at Bokserska Street 66a, Warsaw, Poland (filed as Exhibit 10.15 to the Current Report on Form 8-K filed with the SEC on April 16, 2001, and incorporated herein by reference).
10.15	Annex 2 to Lease Agreement dated February 19, 2003, for the warehouse located at Bokserska Street 66a, Warsaw, Poland (filed as Exhibit 10.11 to the Annual Report on Form 10-K filed with the SEC on March 15, 2004, and incorporated herein by reference).
10.16	Social guarantee package for the employees of Polmos Bialystok S.A. (filed as exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the SEC on August 8, 2005 and incorporated herein by reference).
10.17	Loan Agreement, dated June 23, 2005, by and between Carey Agri International-Poland Sp. z o.o. and Fortis Bank Polska S.A. (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the SEC on August 8, 2005 and incorporated herein by reference).
10.18	Annex to Loan Agreement, dated June 26, 2005, by and between Carey Agri International-Poland Sp. z o.o. and BRE Bank S.A. (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the SEC on August 8, 2005 and incorporated herein by reference).
10.19	Purchase Agreement dated as of August 3, 2005 by and among Central European Distribution Company and the investors signatory thereto (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the SEC on November 9, 2005 and incorporated herein by reference).
10.21	Registration Rights Agreement dated as of August 3, 2005 by and among Central European Distribution Corporation and the investors signatory thereto (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the SEC on November 9, 2005 and incorporated herein by reference).
10.22	Registration Rights Agreement, dated August 17, 2005, by and among Central European Distribution Corporation, Botapol Management B.V. and Takirra Investment Corporation N.V. (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on August 23, 2005 and incorporated herein by reference).
10.23	Employment Agreement, dated August 10, 2005, by and between Central European Distribution Corporation and Richard Roberts (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on October 13, 2005 and incorporated herein by reference).
10.24	Annex, dated January 24, 2007, to the Employment Agreement dated as of August 10, 2005, between Richard Roberts and Central European Distribution Corporation (filed as Exhibit 10.5 to the Current Report on Form 8-K filed with the SEC on January 24, 2007, and incorporated herein by reference).
10.25	Trade Mark License, dated August 17, 2005, by and among Distilleerderijen Erven Lucas Bols B.V., Central European Distribution Corporation and Carey Agri International Poland Sp. z o.o. (filed as Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on August 23, 2005 and incorporated herein by reference).
10.26	Deed of Tax Covenant, dated August 17, 2005, by and among Botapol Management B.V., Takirra Investment Corporation N.V., Rémy Cointreau S.A., Carey Agri International Poland Sp. z o.o. and Central European Distribution Corporation (filed as Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on August 23, 2005 and incorporated herein by reference).
10.27	Multipurpose Credit Line Agreement, dated October 12, 2006, by and between Fortis Bank SA/NV, Austrian Branch and Carey Agri International Poland Sp. z o.o. (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on October 18, 2006 and incorporated herein by reference).
10.28	Annex No. 1, dated January 16, 2007, to Multipurpose Credit Line Agreement, dated October 12, 2006, by and between Fortis Bank SA/NV, Austrian Branch and Carey Agri International Poland Sp. z o.o. (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 22, 2007 and incorporated herein by reference).



<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.29	Bank Guarantee, dated October 12, 2006, by and between Fortis Bank SA/NV, Austrian Branch and Carey Agri International Poland Sp. z o.o. (filed as Exhibit 10.2 to the Current Report on Form 8K filed with the SEC on October 18, 2006 and incorporated herein by reference).
10.30	Summary of Director Compensation (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the SEC on November 8, 2006 and incorporated herein by reference).
10.31*	Facility Agreement among Fortis Bank Polska S.A., Fortis Bank S.A./NV, Austrian Branch, and Bank Polska Kasa Opieki S.A. and Carey Agri International-Poland Sp. z o.o.
10.32*	Corporate Guarantee Agreement, dated December 21, 2007, between Fortis Bank Polska S.A., Fortis Bank S.A./NV, Austrian Branch, Bank Polska Kasa Opieki S.A. and Central European Distribution Corporation.
21*	Subsidiaries of the Company.
23*	Consent of PricewaterhouseCoopers Sp. z o.o.
24.1*	Power of Attorney (contained on signature page).
31.1*	Rule 13a-14(a) Certification of the CEO in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a) Certification of the CFO in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Section 1350 Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Section 1350 Certification of the CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.



**Exhibit 10.2**

**CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
2007 NON-QUALIFIED STOCK OPTION AGREEMENT**

This Stock Option Agreement (the "Option Agreement") is made as of [ ], by and between Central European Distribution Corporation (CEDC), a Delaware corporation (the "Company") and [ ], Director of the Company (the "Optionee").

WHEREAS, the Board of Directors of the Company (the "Board") has duly adopted, and the shareholders of the Company have approved, the 2007 Stock Incentive Plan, as amended (the "Plan"), a copy of which has been made available to the Optionee, which provides for the grant of Options to eligible individuals for the purchase of shares of the Company's Stock (as such terms are defined in the Plan);

WHEREAS, the Company has determined that it is desirable and in its best interests to grant to the Optionee, pursuant to the Plan, an option to purchase a certain number of shares of Stock in order to provide the Optionee with an incentive to advance the interests of the Company, all according to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties agree as follows:

**1. Grant of Option.** The provisions of the Plan are incorporated by reference herein and terms used in this Agreement that are defined in the Plan shall have the meanings assigned to them in the Plan. Subject to the terms of the Plan, the Company hereby grants to the Optionee an Option to purchase from the Company [ ] shares of Stock, all of which will be exercisable on [one or two years after the Grant Date]. The Option shall not constitute an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

**2. Price.** The Option Price of each Option is the closing price of the CEDC Stock on [ ]. Payment for Shares purchased under the Plan shall be made in cash or cash equivalents.

**3. Exercise of Option.** The Options may be exercised as follows:

A. Time of Exercise of Options. The grant to Optionee of the Option to purchase from the Company [ ] Shares will be exercisable on [ ]. Any of the Options not exercised within ten years after the Grant Date shall be terminated and become null and void.

B. Exercise by Optionee. During the lifetime of the Optionee, only the Optionee (or, in the event of the Optionee's legal incapacity or incompetence, the Optionee's guardian or legal representative) may exercise the Option. If Optionee's directorship with CEDC terminates by reason of death, Options not then vested, if any, will fully vest and may be exercised within 24 months after such death. If the Optionee's directorship terminates by reason of the Optionee's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), the



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Options not then vested, if any, will continue to vest and will be exercisable to the extent vested for a period of one year after the termination of directorship. If the Optionee's directorship terminates for any other reason, Options not then vested will terminate and vested options held by such Optionee will terminate 90 days after such termination.

**4. Method of Exercise of Options.** The Options may be exercised in accordance with the provisions of Section 11.9 of the Plan.

**5. Limitations on Transfer.** The Options are not transferable by the Optionee other than by will or the laws of descent and distribution in the event of death of the Optionee and shall not be pledged or hypothecated (by operation of law or otherwise) or subject to execution, attachment or similar processes; provided, however, these non-qualified stock options may be transferred to a "family member" of the Optionee, as defined in a manner consistent with the requirements for the Form S-8 registration statement under the Securities Act of 1933, provided that [(x) there may be no consideration for any such transfer, and (y)] subsequent transfers of transferred Options are prohibited except by will or the laws of descent and distribution upon the death of the transferee.

**6. Rights as Shareholder.** Neither the Optionee nor any person entitled to exercise the Optionee's rights in the event of the Optionee's death shall have any of the rights of a shareholder with respect to any Shares subject to this Option except to the extent the certificates for such Shares shall have been issued upon the exercise of the Option.

**7. General Restrictions.** The Company shall not be required to sell or issue any Shares under the Options if the sale or issuance of such Shares would constitute a violation by the individual exercising the Options or by the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any Shares subject to the Options upon any securities exchange or under any state or federal law, or governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the issuance or purchase of Shares hereunder, the Options may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Option. Specifically in connection with the Securities Act of 1933, upon notice of exercise of any Option, unless a registration statement under such Act is in effect with respect to the Shares covered by such Option, the Company shall not be required to sell or issue such Shares unless the Committee has received evidence satisfactory to it that the holder of such Option may acquire such Shares pursuant to an exemption from registration under such Act. Any determination in this connection by the Committee shall be final, binding, and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act of 1933. The Company shall not be obligated to take any affirmative action in order to cause the exercise of the Options or the issuance of Shares pursuant hereto to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that the Options shall not be exercisable





unless and until the Shares covered by the Options are registered or are subject to an available exemption from registration, the exercise of the Options (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

**8. Governing Law.** This Option Agreement is executed pursuant to and shall be governed by the laws of the State of Delaware (but not including the choice of law rules thereof).

**9. Binding Effect.** Subject to all restrictions provided for in this Option Agreement and the Plan, and by applicable law, relating to assignment and transfer of this Option Agreement and the Options, this Option Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, and assigns.

**10. Notice.** An option that is exercisable may be exercised by the Optionee's delivery to the Company of written notice of exercise on any business day, at the Company's principal office, addressed to the attention of the Committee. Such notice shall specify the number of shares of Stock with respect to which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the shares for which the Option is being exercised.

**11. Entire Agreement.** This Option Agreement constitutes the entire agreement and supersedes all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Option Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Company and the Optionee; *provided, however*, that the Company unilaterally may waive any provision hereof in writing to the extent that such waiver does not adversely affect the interests of the Optionee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.



IN WITNESS WHEREOF, the parties hereto have duly executed this Option Agreement, or caused this Option Agreement to be duly executed on their behalf, as of the day and year first above written.

CENTRAL EUROPEAN DISTRIBUTION  
CORPORATION

By: \_\_\_\_\_  
James Archbold  
Title: Corporate Secretary

OPTIONEE:

\_\_\_\_\_

ADDRESS FOR NOTICE TO OPTIONEE:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



**Exhibit 10.3**

**CENTRAL EUROPEAN DISTRIBUTION CORPORATION  
2007 INCENTIVE STOCK OPTION AGREEMENT**

This Stock Option Agreement (The "Option Agreement") is made as of the [ ] day of [ ] by and between Central European Distribution Corporation, a Delaware corporation (the "Company") and [ ] ("Optionee")

WHEREAS, the Board of Directors of the Company (the "Board") has duly adopted, and the shareholders of the Company have approved, the 2007 Stock Incentive Plan, as amended (the "Plan"), a copy of which has been made available to the Optionee, which provides for the grant of Options to eligible individuals for the purchase of shares of the Company's stock (as such terms are defined in the Plan):

WHEREAS, the Company has determined that it is desirable and in its best interests to grant to the Optionee, pursuant to the Plan, an option to purchase a certain number of shares of Stock in order to provide the Optionee with an incentive to advance the interests of the Company, all according to the terms and conditions set forth herein,

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties agree as follows:

**1. Options Granted and Time of Exercise**

The provisions of the Plan are incorporated by reference herein and terms used in this Agreement that are defined in the Plan shall have the meanings assigned to them in the Plan. Subject to the terms of the Plan, the Company hereby grants to the Optionee an Option to purchase:

- [ ] Options from [ ], vesting on [one or two years after the Grant Date]

The option shall constitute an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

**2. Option Price**

The Option Price of each Option is closing price of the CEDC Stock on [ ].

**3. Exercise of Option**

*A. Term of Option*

All Options are valid for 10 years from the date they are granted.

*B. Exercise by Optionee*

During the lifetime of the Optionee, only the Optionee (or, in the event of the Optionee's legal incapacity of incompetence, the Optionee's guardian or legal representative) may exercise the Options.



#### **4. Method of Exercise of Options**

An Option that is exercisable may be exercised by the Optionee's delivery to the Company of written notice of exercise on any business day, at the Company's principal office, addressed to the attention of the Committee. Such notice shall specify the number of shares of Stock with respect to which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the shares for which the Option is being exercised. The minimum number of shares of Stock with respect to which an Option may be exercised, in whole or in part, at any time shall be the lesser of:

- (i) 100 shares or such lesser number set forth herein and
- (ii) the maximum number of shares available for purchase under the Option at the time of exercise.

Payment of the Option Price for the share purchase pursuant to the exercise of an Option shall be made in cash or in cash equivalents.

#### **5. Limitations on Transfer**

The Options are not transferable by the Optionee other than by will or the laws of descent and distribution in the event of death of the Optionee and shall not be pledged or hypothecated (by operation of law or otherwise) or subject to execution, attachment or similar processes.

#### **6. Rights as Shareholder**

Neither the Optionee nor any person entitled to exercise the Optionee's rights in the event of the Optionee's death shall have any of the rights of a shareholder with respect to any shares subject to this Option, except to the extent the certificates for such shares shall have been issued upon the exercise of the Option.

#### **7. General Restrictions**

The Company shall not be required to sell or issue any Shares under the Options if the sale or issuance of such Shares would constitute a violation by the individual exercising the Options or by the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any Shares subject to the Options upon any securities exchange or under any state or federal law, or governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the issuance or purchase of Shares hereunder, the Options may not be exercised in whole or in part unless such listing, registration, qualification consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Option. Upon notice of exercise of any Option, unless a registration statement under the Securities Act of 1933, as amended, is in effect with respect to the Shares covered by such Option, the Company shall not be required to sell or issue such Shares unless the Committee received evidence satisfactory to it that the holder of such Option may acquire such Shares pursuant to an exemption from registration under such Act.



Any determination in this connection by the Committee shall be final, binding and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act of 1933. The Company shall not be obligated to take any affirmative action in order to cause the exercise of the Options or the issuance of Shares pursuant hereto to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that the Options shall not be exercisable unless and until the Shares covered by the Options are registered or are subject to an available exemption from registration, the exercise of the Options (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

**8. Governing Law**

This Option Agreement is executed pursuant to and shall be governed by the laws of the State of Delaware (but not including the choice of law rules thereof).

**9. Binding Effect**

Subject to all restrictions provided for in this Option Agreement and the Plan, and by applicable law, relating to assignment and transfer of this Option Agreement and the Options, this Option Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, and assigns.

**10. Entire Agreement**

This Option Agreement constitutes the entire agreement and supersedes all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Option Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Company and the Optionee; *provided, however*, that the Company unilaterally may waive any provision hereof in writing to the extent that such waiver does not adversely affect the interests of the Optionee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.



IN WITNESS WHEREOF, the parties hereto have duly executed this Option Agreement, or caused this Option Agreement to be duly executed on their behalf, as of the day and year first above written.

CENTRAL EUROPEAN DISTRIBUTION CORPORATION

By: \_\_\_\_\_  
Name: William V. Carey  
Title: President and Chief Executive Officer

OPTIONEE:

\_\_\_\_\_  
Name:

ADDRESS FOR NOTICE TO OPTIONEE:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_





<b>CENTRAL EUROPEAN DIS</b>	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	<b>38634 EX10_31 1</b>	1*
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**Exhibit 10.31**

**EXECUTION COPY**

**FORTIS BANK POLSKA S.A.**

**FORTIS BANK S.A./NV, AUSTRIAN BRANCH**

**BANK POLSKA KASA OPIEKI S.A.**

**(as “Original Lenders”)**

**and**

**FORTIS BANK POLSKA S.A.**

**(as “Arranger”, “Facility Agent” and “Security Agent”)**

**and**

**CAREY AGRI INTERNATIONAL - POLAND SP. Z O.O.**

**as Borrower**

**FACILITY AGREEMENT**

**FOR UP TO PLN 300,000,000**

**Warsaw, December 21, 2007**



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This agreement (the “**Agreement**”) was executed in Warsaw on December 21, 2007 between:

- (1) **FORTIS BANK POLSKA S.A.**, a bank organized and existing under the laws of the Republic of Poland, with its seat in Warsaw at ul. Suwak 3, entered into the register of business entities of the National Court Register under the KRS number 0000006421, NIP 676-007-83-01, with the share capital equal to PLN 503,135,400, which share capital has been fully paid (as the “**Arranger**”, the “**Facility Agent**” the “**Security Agent**” or “**Fortis Bank Polska**”) and
- (2) **FORTIS BANK S.A./NV, AUSTRIAN BRANCH**, a credit institution organized and existing under the laws of Belgium having its business address at Montagne du Parc 3, B-1000 Brussels, Belgium acting within the scope of business of its Austrian branch, Euro Plaza/D, Technologiestrasse 8, A-1120 Vienna, Austria, FN 263765 of the commercial court Vienna, DVR-Nr. 211 1743 (“**Fortis Bank Austria**”), and
- (3) **BANK POLSKA KASA OPIEKI S.A.**, a bank organized and existing under the laws of the Republic of Poland, with its seat in Warsaw at Grzybowska 53/57, entered into the register of business entities of the National Court Register under no. KRS 0000014843, NIP 526-00-06-841, with the share capital equal to PLN 261,866,657.00, which share capital has been fully paid (“**Bank PeKaO**”)  
  
(jointly as the “**Original Lenders**”)  
  
and
- (4) **CAREY AGRI INTERNATIONAL - POLAND SP. Z O.O.**, a company organized and existing under the laws of the Republic of Poland, with its seat in Warsaw at ul. Bokszerska 66a street, entered into the register of business entities of the National Court Register under the KRS number 0000051098 (the “**Borrower**”).

**IT IS AGREED** as follows:

## **SECTION 1** **INTERPRETATION**

### **DEFINITIONS AND INTERPRETATION**

#### 1.1. Definitions

In this Agreement:

“**Affiliate**” means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

“**Applicable Currency**” means PLN or alternatively, subject to the terms of this Facilities Agreement EUR or USD.



**“Applicable Exchange Rate”** means for the purpose of Clause 6.2.2 (*Voluntary cancellation*) and 6.2.3 (*Voluntary prepayment of the Loan*) the exchange rate provided by Facility Agent in order to calculate the amount of prepayment or cancellation from PLN into Applicable Currency in which the Facility is nominated as of the day of such intended cancellation or prepayment.

**“Applicable Interbank Rate”** means EURIBOR, LIBOR or WIBOR (as the case may be).

**“Arrangement Fee”** has the meaning set out in Clause 7.4.1 (*Arrangement fee*).

**“Asset Sale”** - has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Attributable Debt”** - has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Authorization”** means an authorization, consent, approval, resolution, license, exemption, filing, notarization or registration, notification or permit.

**“Availability Period”** means the period from and including the date of this Agreement to and including date which is 3 Months after the date of this Agreement.

**“Available Commitment”** means, in relation to the Facility, a Lender’s Commitment under the Facility minus:

- (a) the amount of its participation in any outstanding Loans under the Facility; and
- (b) in relation to any proposed Utilization, the amount of its participation in any Loans that are due to be made under the Facility on or before the proposed Utilization Date.

**“Available Facility”** means, in relation to the Facility, the aggregate for the time being of each Lender’s Available Commitment.

**“BGF”** or the **“Bank Guarantee Fund”** means the Bank Guarantee Fund established pursuant to the Bank Guarantee Fund Act of 14 December 1994 (uniform text Journal of laws of 2000 No. 9 section 131, as amended).

**“Board of Directors”** - has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Bols Hungary”** -means Bols Hungary Kft, company organized and existing under the law of Hungary, with its seat in HU-1123 Budapest, Alkotás u. 50, Hungary, registered under No. 01-09-069270, being indirect the Subsidiary of the Borrower.

**“Break Costs”** means the amount (if any) by which:

- (a) the interest which a Lender should have received for the period from the date of receipt of all or any part of its participation in a Loan or Unpaid Sum to the last day of the current Interest Period in respect of that Loan or Unpaid Sum, had the principal amount or Unpaid Sum received been paid on the last day of that Interest Period;
- (b) exceeds: the amount which that Lender would be able to obtain by placing an amount



equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank in the Relevant Interbank Market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for general business in all cities in which Facility Offices of each Lender are located.

“**Calculation Day**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Calculation Period**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Capital Lease Obligations**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Cash Equivalent**” - has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**CEDC**” means Central European Distribution Corporation, company organized and existing under the laws of the State of Delaware of the United States, which is the direct sole shareholder of the Borrower.

“**CEDC Corporate Guarantee**” - means a corporate guarantee issued by CEDC in the form set forth in **Schedule 6** (*Form of Securities*).

“**Civil Code**” means the Civil Code of 23 April 1964 (Journal of Laws of 1964 No. 16 section 93, as amended).

“**Commercial Companies Code**” means the Commercial Companies Code of 15 September 2000 (Journal of laws of 2000 No. 94 section 1037, as amended).

“**Commitment**”;

- (a) in relation to an Original Lender, the amount set opposite its name under the heading “Commitment” in **Schedule 1** (*The Original Lenders*) and the amount of any other Commitment transferred to it under this Agreement; and
- (b) in relation to any other Lender, the amount of any Commitment transferred to it under this Agreement, to the extent not cancelled, reduced or transferred by it under this Agreement.

“**Compliance Certificate**” means a certificate substantially in the form set out in **Schedule 7** (*Form of Compliance Certificate*).

“**Consolidated Coverage Ratio**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Consolidated Net Income**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Disqualified Shares**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Default**” means an Event of Default or any event or circumstance specified in Clause 12.1 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.





“**EBITDA**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Environment**” means air, water and land, in each case anywhere and in any form and any other meaning given to the term “environment” under the “Environmental Laws”.

“**Environmental Claim**” means any material claim, proceedings or investigation by any person pursuant to any Environmental Law.

“**Environmental Law**” means any law applicable to the Borrower or the Property, which relates to the pollution or protection of the environment or material harm to or the protection of human health or the health of animals or plants.

“**Environmental Permit**” means any permit, license, consent, approval and other authorization and the filing of any notification, report, improvements programmes and assessments required under the Environmental Laws for the operation of the business on or from any respective property owned or used by any respective entity.

“**Equity Interest**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Event of Default**” means any event or circumstance specified as such in Clause 12.1 (*Events of Default*).

“**EURIBOR**” means, in relation to the Facility:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the Interest Period of that Loan) the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request quoted by the Reference Banks to leading banks in the European interbank market,

as of the Specified Time on the Quotation Day for the offering of deposits in EUR for a period comparable to the Interest Period of the Facility.

“**Existing Facilities**” - means facilities and other instruments giving rise to Financial Indebtedness owed from the Borrower (as principal obligor or co-obligor) pursuant to instruments listed in Part I of **Schedule 5** (*Existing Facilities and Existing Securities*).

“**Existing Securities**” - means securities over the assets of the respective Obligors established in favour of the lenders under the Existing Facilities specified in Part II of **Schedule 5** (*Existing Facilities and Existing Securities*).

“**Existing Securities under Refinanced Facility**” means the Existing Securities established in favour of the lenders under the Existing Facilities specified in Part II of **Schedule 5** (*Existing Facilities and Existing Securities*) and marked with an asterisk (“\*”) which are to be released as the result of repayment of the Refinanced Facilities.



“**Facility**” means the term loan facility made available under this Agreement pursuant to Clause 2.1 (*The Facility*).

“**Facility Agent**” - means Fortis Bank Polska S.A. as agent for the other Finance Parties, as well as any successor Facility Agent appointed pursuant to Clause 14.1.11 (*Resignation of the Facility Agent*).

“**Facility Office**” means the office or offices notified by a Lender to the Facility Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days’ written notice) as the office or offices through which it will perform its obligations under this Agreement.

“**Fair Market Value**” - has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Fee Letter**” means an agreement entered into between the Original Lenders and the Borrower on or about the date of this Agreement.

“**Finance Document**” means this Agreement, the Security Documents, any Transfer Agreement, and any other document designated as such by the Facility Agent and the Borrower.

“**Finance Party**” means the Lender, the Arranger, the Facility Agent or the Security Agent.

“**Final Repayment Date**” means March 31, 2009.

“**Financial Indebtedness**” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility or dematerialized equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) any counter-indemnity obligation and other liability in respect of a guarantee, surety,



indemnity, bond, standby or documentary letter of credit or any other similar instrument issued by a bank or financial institution; and

- (i) any counter-indemnity obligation and other liability in respect of a guarantee, surety, indemnity, bond or any other similar instrument issued by any of the Obligor.
- (j) the amount of any liability in respect of any guarantee or indemnity for obligations resulting from instruments referred to in any of the paragraphs referred to in paragraphs (a) to (h) above.

**“Financial Pledges over the Shares”** - means an agreement pursuant to which the Borrower pledges to each Lender equally ranking to pledges established for the benefit of ING Bank N.V. London Branch by way of a financial pledge (*zastaw finansowy*) Shares, executed in form and substance as set forth in **Schedule 6** (*Form of Securities*).

**“Financial Statements”** means:

- (a) each of the Original Financial Statements; and
- (b) any accounts or financial statements delivered to the Facility Agent under paragraphs (1) to (3) of Clause 10.1.1 (*Financial Statements*);

**“Financial Year”** means each annual period ending on 31 December in respect of which Financial Statements are delivered to the Facility Agent under paragraphs (1) to (3) of Clause 10.1.1 (*Financial Statements*);

**“Fixed Charges”** has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Fortis Bank Austria”** means **Fortis Bank S.A./NV, Austrian Branch** with its registered office at Technologiestrasse 8, 1120 Wien, Austria entered into Commerce Register maintained by the Republic of Austria, under No. FN 263765.

**“GAAP”** means generally accepted accounting principles, applicable in the United States as in effect from time to time.

**“Governmental Authority”** means any nation or government, any state or other political sub-division thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

**“Government Securities”** - has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Group”** means the CEDC capital group as presented in the **Schedule 8** (*CEDC Capital Group*), as well as other companies, whose financial statements are fully consolidated by CEDC.

**“Guarantee”** has the meaning set out in Clause 10.2 (*Financial Conditions*).



“**Hedging Obligations**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Holding Company**” means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

“**Indebtedness**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Investment**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Indenture**” - an indenture dated July 25, 2005 among CEDC, the Notes Guarantors, ING Bank N.V., London Branch as the Note Security Agent and the Bank of New York as Trustee.

“**Intellectual Property**” means patents (including, supplementary protection certificates), utility models, registered and unregistered trade marks (including service marks), rights in passing off, rights in domain names, copyright and neighbouring rights, database rights, registered and unregistered rights in designs (including in relation to semiconductor products) and all other intellectual property rights and, in each case, rights of a similar or corresponding character and any extensions and renewals of, and any applications for, such rights.

“**Intellectual Property Rights**” means, all and any of the Intellectual Property and other rights, causes of action, interests and assets related to the Intellectual Property.

“**Interest Period**” means, in relation to a Loan, each period determined in accordance with Clause 7.2 (*Interest Periods*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 7.1.3 (*Default interest*).

“**Lender**” means:

- (a) any Original Lender; and
- (b) any bank, financial institution, trust, fund or other entity which has become a Party in accordance with Clause 13.1 (*Changes to the Lenders*),

which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

“**LIBOR**” means, in relation to the Facility:

- (a) the applicable Screen Rate; or
- (b) if no Screen Rate is available for USD for the Interest Period of that Facility the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request quoted by the Reference Banks to leading banks in the London interbank market,

as of the Specified Time on the Quotation Day for the offering of deposits in USD and for a period comparable to the Interest Period for the Facility.

“**Loan**” means loan made or to be made under the Facility disbursed to the Borrower in one or more Utilizations or the principal amount outstanding for the time being of each such loan.



**“Majority Lenders”** means:

- (a) if there are no Loans, a Lender or Lenders whose Commitments aggregate more than 66 2/3% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 66 2/3% of the Total Commitments immediately prior to the reduction); or
- (b) at any other time, a Lender or Lenders whose participations in the Loans aggregate more than 66 2/3% of the Loans.

**“Mandatory Cost”** - means mandatory payments to the Bank Guarantee Fund due from a Lender in relation to its participation in the Facility.

**“Margin”** means 1.2% per annum.

**“Market Conventions”** means the prevailing practice in the Relevant Interbank Market relating to facilities and payments of the nature contemplated in this Agreement, including the method of interest rate fixing and the calculation of interest on deposits, involving such factors as the day count basis, the meaning of Business Day and the settlement basis.

**“Material Adverse Effect”** means a material adverse effect on:

- (a) the business, assets, prospects or financial condition of any Obligor or the Group taken as the whole; or
- (b) the ability of any Obligor to perform and comply with its obligations under any Finance Document; or
- (c) the validity or enforceability of any Finance Document or the rights or remedies of any Finance Party thereunder.

**“Month”** means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next month, except that:

- (a) if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day;
- (b) if there is no numerically corresponding day in the month in which that period is to end, that period shall end on the last Business Day in that month.

**“Net Debt”** has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Net Debt Ratio”** has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Net Income”** - has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Notes”** - the senior secured notes in the aggregate principal amounts of EUR 325,000,000 issued by CEDC under the Indenture.



**“Notes Guarantors”** means the Borrower, Multi Ex S.A., Astor Sp. z o.o., Polskie Hurtownie Alkoholi Sp. z o.o., MTC Sp. z o.o., Przedsiębiorstwo Dystrybucji Alkoholi AGIS Sp. z o.o., Dako Galant PHP Sp. z o.o., Damianex S.A., PWW Sp. z o.o. and Miro Sp. z o.o., Delikates Sp. z o.o., Panta Hurt Sp. z o.o., Imperial Sp. z o.o., Polnis Dystrybucja Sp. z o.o., Onufry S.A., Krokus Sp. z o.o., Bols Sp. z o.o., and Botapol Holding B.V.

**“Notes Guarantees”** - means the guarantees issued by the Notes Guarantors under which the Notes Guarantors guaranteed the Notes on a senior basis.

**“Obligor”** means:

- (a) the CEDC;
- (b) the Borrower.

**“Original Financial Statements”** means:

- (a) in relation to the Borrower, the audited consolidated financial statements of the Group for the financial year ended December 31, 2005 and
- (b) in relation to the Borrower, the audited non-consolidated financial statements of the Borrower for the financial year ended December 31, 2006
- (c) in relation to each Obligor other than the Borrower, its audited financial statements for its financial year ended December 31, 2006.

**“Original Security Documents”** means: (i) the Pledges over the Shares, (ii) the Promissory Notes, (iii) the CEDC Corporate Guarantee and (iv) the Submission to Execution.

**“Participating Member State”** means any member state of the European Communities that adopts or has adopted the Euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.

**“Party”** means a party to this Agreement.

**“PAS”** means Polish Accounting Standards under the Act on Accounting dated 29 September 1994 (uniform text Journal of laws 2002 No. 76 section 694, as amended).

**“Permitted Business”** has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Permitted Business Investments”** has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Person”** has the meaning set out in Clause 10.2 (*Financial Conditions*).

**“Permitted Financial Indebtedness”** means any Financial Indebtedness:

- (a) under the Finance Documents;
- (b) under the Notes and under the Notes Guarantees and hedging relating thereto;



- (c) other than Financial Indebtedness set forth in items (a) - (b) above, provided that including such Financial Indebtedness and servicing payments under such Financial Indebtedness, as well as, establishment of securities with respect to such Financial Indebtedness do not violate the terms of the Indenture and other documents relating to Notes (including also Note Guarantees and hedging under the Notes), and do not result and should not be reasonably expected to result in a violation of covenants provided for in Clause 10.2 (*Financial Condition*).

**“Permitted Security”** means:

- (a) any lien arising by operation of law in the ordinary course of business and securing amounts not more than 30 days overdue;
- (b) Security securing Notes and under the Notes Guarantees and hedging relating thereto and other Permitted Financial Indebtedness.

**“Pledges over the Shares”** means: (i) Registered Pledge over the Shares and (ii) Financial Pledges over the Shares and (ii) Pledge over the Shares of Bols Hungary.

**“Pledge over the Shares of Bols Hungary”** means an instrument pursuant to which Bols Sp. z o.o. pledges to the Security Agent and in *pari passu* to ING Bank N.V. London Branch all quotas in Bols Hungary; executed in form and substance as set forth in **Schedule 6** (*Form of Securities*).

**“Polish Zloty”** or “PLN” means the lawful currency of the Republic of Poland.

**“Polmos Białystok”** - means Przedsiębiorstwo Polmos Białystok S.A., company organized and existing under the law of Poland, with its seat in Białystok at ul. Elewatorska 20, entered into the register of business entities of the National Court Register under the KRS number 0000040543

**“Prepayment Fee”** has a meaning as set forth in Clause 6.2.4 (*Voluntary Prepayment of the Loan*).

**“Proceeding”** has a meaning as set forth in Clause 12.1.9.

**“Promissory Notes”** - means promissory notes issued by the Borrower and the following companies: MTC Sp. z o.o., Miro Sp. z o.o., Delikates Sp. z o.o., Multi Ex SA, Panta Hurt Sp. z o.o., Polskie Hurtownie Alkoholi Sp. z o.o., Astor Sp. z o.o., Imperial Sp. z o.o., Polnis-Dystrybucja Sp. z o.o., Dako Galant PHP Sp. z o.o., Onufry S.A., Fine Wine & Spirits Sp. z o.o., PWW Sp. z o.o., Saol Dystrybucja Sp. z o.o., Przedsiębiorstwo Dystrybucji Alkoholi AGIS Sp. z o.o., Damianex SA, Krokus Sp. z o.o., BOLS Sp. z o.o., in each case together with the declaration to the promissory note in the form set forth in **Schedule 6** (*Form of Securities*).

**“Protected Party”** has the meaning given to it in Clause 8.1 (*Tax gross-up and indemnities*).

**“Qualifying Lender”** has the meaning given to it in Clause 8.1 (*Tax gross-up and indemnities*).





“**Quotation Day**” means, in relation to any period for which an interest rate is to be determined, two Business Days before the first day of that period unless market practice differs in the Relevant Interbank Market, in which case the Quotation Day will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

“**Reference Banks**” means BRE Bank S.A., ING Bank Śląski S.A., Powszechna Kasa Oszczędności Bank Polski S.A.;

“**Refinanced Facility**” - means the Existing Facility listed in Part I of **Schedule 5** (*Existing Facilities and Existing Securities*) and marked with an asterisk (“\*”), which is to be repaid with the proceeds of the Facility.

“**Refinancing Tranche**” means the first Utilization of the Facility, which shall be applied by the Borrower towards repayment of the Refinanced Facility.

“**Registered Pledge over the Shares**” means an agreement pursuant to which the Borrower pledges Shares to the Security Agent equally ranking to pledge established for the benefit of ING Bank N.V. London Branch, by way of a registered pledge (*zastaw rejestrowy*), executed in form and substance as set forth in **Schedule 6** (*Form of Securities*).

“**Relevant Interbank Market**” means the Warsaw interbank market for PLN and a European interbank market as selected by the Facility Agent for USD and EUR.

“**Repeating Representations**” means each of the representations set out in Clause 9 (*Representations*).

“**Restricted Subsidiary**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**Screen Rate**” means (i) with respect to PLN the percentage rate per annum determined for deposits in PLN for the relevant period, displayed on the appropriate page of the Reuters screen (currently being “WIBO01”), (ii) with respect to USD the British Bankers’ Association Interest Settlement Rate for USD for the relevant period, displayed on the appropriate page of the Reuters screen, (iii) for EUR the percentage rate per annum determined by the Banking Federation of the European Union for the relevant period, displayed on the appropriate page of the Reuters screen. If the agreed page is replaced or service ceases to be available, the Facility Agent may specify another page or service displaying the appropriate rate after consultation with the Borrower and the Lenders.

“**Security**” or “**Lien**” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell give a security interest in and any filing of or agreement to give any financing statement under any applicable law.

“**Security Documents**” means the Original Security Documents and all other assignments,



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charges, mortgages, pledges, guarantees, indemnities, subordination agreements and other documents securing receivables of the Original Lenders against the Borrower which may be executed after the date of this Agreement for the benefit of the Lenders to supplement or replace or in order to give (or evidence) security (or any other form of support) for the performance of the obligations of the Borrower under the Finance Documents. The Existing Security is specified in Part II of **Schedule 5** (*Existing Facilities and Existing Securities*).

**“Share Capital”** means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Share Capital, whether or not such debt securities include any right of participation with Share Capital.

**“Shareholder”** means CEDC.

**“Shares”** means 4,039,680 ordinary outstanding registered shares of Polmos Białystok of the nominal value of 10 PLN each, constituting 33.95% of its share capital and representing 33,95% of total number of votes at the general meeting of Polmos Białystok.

**“Specified Time”** means a time determined in accordance with **Schedule 10** (*Timetables*).

**“Subsidiary”** means a dependant company within the meaning of article 4 section 1 subsection 4 of the Commercial Companies Code.

**“Submission to Execution”** means each submission to execution issued in favour of each of the Lenders with respect to their receivables under this Agreement issued by the Borrower pursuant to Article 777 §1 item 5 of the Polish Code of Civil Procedure, executed in form and substance as set forth in **Schedule 5** (*Form of Securities*).

**“Tax”** means any tax, levy, impost, duty, social security, other public charges, as well as different public dues or withholdings of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

**“Tax Credit”** has the meaning given to it in Clause 8.1 (*Tax gross-up and indemnities*).

**“Tax Deduction”** has the meaning given to it in Clause 8.1 (*Tax gross-up and indemnities*).

**“Tax Laws”** means the Personal Income Tax Act and/or the Corporate Income Tax Act of the Republic of Poland, as well as any other law as in effect in Poland, which gives rise to obligations in respect of Taxes.

**“Tax Payment”** has the meaning given to it in Clause 8.1 (*Tax gross-up and indemnities*).



“**Total Commitments**” means the aggregate of the Commitments being PLN 300,000,000 at the date of this Agreement.

“**Transfer Agreement**” means a transfer agreement in the form set out in **Schedule 4** (*Form of Transfer Agreement*).

“**Treaty Lender**” has the meaning set out in Clause 8.1 (*Tax gross up and indemnities*).

“**Unpaid Sum**” means any sum due and payable but unpaid by an Obligor under the Finance Documents.

“**Unrestricted Subsidiary**” has the meaning set out in Clause 10.2 (*Financial Conditions*).

“**US GAAP**” means generally accepted accounting principles applicable in the United States as in effect from time to time.

“**Utilization**” means a utilization of the Facility.

“**Utilization Date**” means the date of Utilization, being the date on which the relevant Utilization of the Loan is to be made.

“**Utilization Request**” means a notice substantially in the form set out in **Schedule 3** (*Utilization Request*).

“**Value Added Tax Act**” means Value Added Tax Act of 11 March 2004 (Journal of laws of 2004 No. 54 section 535, as amended).

“**VAT**” means value added tax as provided for in the Value Added Tax Act and any other tax of a similar nature.

“**WIBOR**” means:

- (a) the applicable Screen Rate (WIBOR); or
- (b) (if no Screen Rate (WIBOR) is available for the Interest Period of that Facility) the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request quoted by the Reference Banks to leading banks in the Warsaw interbank market,

as of 11.00 a.m. Warsaw time on the Quotation Day (WIBOR) for the offering of deposits in PLN for a period comparable to the Interest Period for the Loan.

## 1.2. Construction

- (a) Unless a contrary indication appears, any reference in this Agreement to:
  - (i) the “**Facility Agent**”, the “**Security Agent**”, the “**Arranger**”, any “**Finance Party**”, any “**Lender**”, any “**Obligor**”, the “**Borrower**” or any “**Party**” shall be construed so as to include its successors in title, permitted assigns and permitted transferees;



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- (ii) “**assets**” includes present and future properties, revenues and rights of every description;
- (iii) a “**Finance Document**” or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended, novated, supplemented, extended or restated;
- (iv) “**indebtedness**” includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (v) a “**person**” includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality);
- (vi) a “**regulation**” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organization;
- (vii) a **provision of law** is a reference to that provision as amended or re-enacted;
- (viii) a **time of day** is a reference to Warsaw time; and
- (ix) all terms used in the singular shall include the plural and the plural the singular.

### 1.3. Section, Clause and Schedule headings

Section, Clause and Schedule headings are for ease of reference only.

### 1.4. Continuing Default

A Default is “**continuing**” if it has not been remedied or waived and an Event of Default is “**continuing**” if it has not been remedied or waived.

### 1.5. Currency symbols

“**PLN**” and “**Zloty**” denote the lawful currency for the time being of Poland.

“**EUR**” and “**Euro**”, denote the lawful currency for the time being of the Participating Member States in accordance with legislation of the European Communities relating to Economic and Monetary Union.

“**USD**” or “**US Dollar**” denotes the lawful currency for the time being of the United States of America.

### 1.6. Agreements and Statutes

Any reference in this Agreement to:



- (a) this Agreement or any other agreement or document shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented; and
- (b) a statute or treaty shall be construed as a reference to such statute or treaty as the same may have been, or may from time to time be, amended or, in the case of a statute, re enacted.

## SECTION 2 THE FACILITY

### 2.1 The Facility

Subject to the terms and the conditions of this Agreement, the Lenders make available to the Borrower the Facility in an aggregate amount equal to the Commitment.

### 2.2 Finance Parties' rights and obligations

- 2.2.1 The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- 2.2.2 The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from an Obligor shall be a separate and independent debt.
- 2.2.3 A Finance Party may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents.

### 2.3 Currency of the Facility

- 2.3.1 The Facility is being made available to the Borrower in PLN. The Borrower may request the Facility Agent to change the currency of the Facility into another Applicable Currency. Such conversion may be made on the last day of an Interest Period. Upon receipt of a request to convert the Facility into another Applicable Currency, the Facility Agent shall upon receipt a consent from all of the Lenders offer to the Borrower an exchange rate based on which such conversion may be effected. The Facility Agent may, upon consultation with all or a request from any of the Lenders condition conversion of the Facility into another currency upon amendment or re-execution of the respective Finance Documents, in a way which preserves the securities of the Facility and preserves the rights of the Lenders under the respective Finance Documents. Costs of such amendment or re-execution of the Finance Documents shall be borne by the Borrower. The Facility Agent may refuse to convert the Facility into another Applicable Currency in the event that such conversion may have a negative effect on the ranking of the respective securities of the Facility or may otherwise negatively affect the rights of the respective Lenders under the Finance Documents.



**SECTION 3**  
**PURPOSE**

3.1 Purpose of the Facility

The Facility shall be used for:

- (1) firstly, the repayment of all outstanding indebtedness under the Refinanced Facilities;
- (2) secondly, for the general corporate purposes, including investment activity;

3.2 No unlawful purpose

No part of the Facility may be used for any purpose which would result in the provisions of unlawful financial assistance or for any other unlawful purpose.

3.3 Monitoring

No Finance Party is bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

**SECTION 4**  
**CONDITIONS OF UTILIZATION**

4.1 Initial conditions precedent

The Borrower may not deliver the Utilization Request, unless the Facility Agent has confirmed to the Borrower and each Lender that all of the documents and other evidence listed in Part no. 1 of **Schedule 2** (*Conditions Precedent*) have been delivered in the form and substance satisfactory to the Facility Agent.

4.2 Additional Initial Conditions Precedent in respect of the Refinancing Tranche

The Borrower may not deliver the Utilization Request with respect to the Refinancing Tranche, unless the Facility Agent has confirmed to the Borrower and each Lender that:

- (1) at least two (2) Business Days before the proposed Utilization Date, the Facility Agent received the written statement issued by Fortis Bank Austria and addressed to the Facility Agent specifying the detailed amount of outstanding indebtedness of the Borrower towards Fortis Bank Austria under the Refinanced Facilities (including in particular the amount of interest and all other fees and costs) as of the Utilization Date;
- (2) at least two (2) Business Days before the proposed Utilization Date, the Facility Agent received the written statement issued by Fortis Bank Austria and addressed to the Borrower with the copy to the Facility Agent, executed in the form satisfactory to the Facility Agent, pursuant to which Fortis Bank Austria releases any and all Existing Securities under the Refinanced Facility under the suspensive condition that all outstanding indebtedness of the Borrower towards Fortis Bank Austria under the Refinanced Facilities is fully repaid.



4.3 Additional Initial Conditions Precedent in respect of the Utilizations other than the Refinancing Tranche

The Borrower may not deliver the Utilization Request concerning Utilizations other than Utilization connected with the Refinancing Tranche, unless the Facility Agent receives a written confirmation from Fortis Bank Austria that all obligations under the Refinanced Facility were repaid in full and all Existing Securities under Refinanced Facility were released.

4.4 Further conditions precedent

The Lenders will only be obliged to comply with Clause 5.5 (*Lender's participation*) if on the date of the Utilization Request and on the proposed Utilization Date:

- (1) no Default is continuing or would result from the proposed Loan;
- (2) the Repeating Representations to be made by the Borrower are true in all respects;
- (3) none of the events described in Clause 7.3.2 (*Market Disruption*) has occurred and is continuing, unless until the date of Utilization Request: (i) the rate of interest on each Lender's share of that Loan for the Interest Period has been established pursuant to Clause 7.3.2 (1) or alternatively (ii) the Facility Agent and the Borrower have agreed a substitute basis for determining the rate of interest pursuant to Clause 7.3.3 (*Alternative basis of interest or funding*).
- (4) the amount of the requested disbursement under the Facility does not exceed the Available Commitment.

**SECTION 5**  
**UTILIZATION**

5.1 Utilization of the Facility

The Borrower may utilize the Facility by requesting disbursement(s) of the Loan, which shall be done by a way of a delivery to the Facility Agent of duly completed Utilization Request(s).

5.2 Delivery of a Utilization Request

The Borrower may utilize the Facility by delivery to the Facility Agent of a respective Utilization Request not later than by the Specified Time.

5.3 Completion of Utilization Request

Each Utilization Request is irrevocable and will not be regarded as having been duly completed unless:





- (1) it is signed by an authorized signatory on behalf of the Borrower;
- (2) it gives details of the account to which the Borrower wishes the proceeds of that Loan to be made available (with respect to the Refinancing Tranche such account should be an account of Fortis bank Austria specified in the statement delivered by Fortis Bank Austria referred to in Clause 4.2 (*Additional Initial Conditions Precedent in respect of the Refinancing Tranche*);
- (3) the proposed Utilization Date is a Business Day within the Availability Period applicable to that Facility; and
- (4) the currency and the amount of the Loan comply with Clause 5.4 (*Currency and amount*).

#### 5.4 Currency and amount

- 5.4.1 The currency specified in a Utilization Request must be PLN.
- 5.4.2 The amount of the proposed Loan must be an amount which is not more than the Available Facility, provided that the amount of the Utilization constituting a Refinancing Tranche shall be equal to the amount of outstanding indebtedness of the Borrower towards Fortis Bank Austria indicated in the written statement delivered to the Facility Agent pursuant to Clause 4.2 (*Additional Initial Conditions Precedent in respect of the Refinancing Tranche*).

#### 5.5 Lender's participation

- 5.5.1 If the conditions set out in this Agreement have been met each Lender shall make its participation in each Loan available by the Utilization Date through its Facility Office.
- 5.5.2 The amount of each Lender's participation in each Loan will correspond to its pro rata participation in the Available Commitment with respect to the Facility.
- 5.5.3 After receipt of a Utilization Request, the Facility Agent shall notify each Lender of the amount of its participation in the funding of the Utilization which is to be made by the Specified Time.

#### 5.6 Cancellation of Commitment

The Commitment shall be immediately cancelled at the end of the Availability Period.

### **SECTION 6** **REPAYMENT, PREPAYMENT AND CANCELLATION**

#### 6.1 Repayment

##### 6.1.1 Repayment of the Loan

The Borrower shall repay the Loan in one instalment paid on the Final Repayment Date.



#### 6.1.2 Re- borrowing

The Borrower may not re-borrow any part of the Facility, which is repaid, converted or prepaid.

### 6.2 Prepayment And Cancellation

#### 6.2.1 Illegality

If it becomes unlawful in any applicable jurisdiction for a Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain its participation in any Loan:

- (1) that Lender shall promptly notify the Facility Agent upon becoming aware of that event;
- (2) upon the Facility Agent notifying the Borrower, the Commitment of that Lender will be immediately cancelled; and
- (3) the Borrower shall repay that Lender's participation in the Loans made to the Borrower on the last day of the Interest Period for each Loan occurring after the Facility Agent has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Facility Agent (being no earlier than the last day of any applicable grace period permitted by provisions of law).

#### 6.2.2 Voluntary cancellation

The Borrower may, upon delivery to the Facility Agent of not less than ten (10) Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, cancel the whole or any part (being a minimum amount of equivalent of PLN 5,000,000 in Applicable Currency calculated at Applicable Exchange Rate) of an Available Facility. Any cancellation under this Clause 6.2.2 (*Voluntary cancellation*) shall reduce the Commitment of the Lenders rateably under that Facility.

#### 6.2.3 Voluntary prepayment of the Loan

- (1) The Borrower may, if it gives the Facility Agent not less than ten (10) Business Days' (or such shorter period as the Majority Lenders may agree) prior written notice, prepay the whole or any part (being at least equivalent of PLN 5,000,000, in Applicable Currency calculated at Applicable Exchange Rate, or an integral multiple of such amount) of a Loan.
- (2) A Loan may only be prepaid after the last day of the Availability Period (or if earlier, the day on which the Available Facility is reduced to zero).
- (3) In the event of any prepayment of the Loan pursuant to paragraph (1), the Borrower shall pay to the Facility Agent a prepayment fee in the amount of 0.10 % of the principal amount being prepaid ("**Prepayment Fee**").



- (4) The Prepayment Fee shall be paid at the same time as the prepayment is made.
- (5) The Loan (or part thereof) should be prepaid on the last day of an Interest Period.
- (6) Subject to provisions of Clause 6.2.6 (*Restrictions*), in the event that the Loan is prepaid on a day other than the last day of the Interest Period, the Borrower shall pay the Break Costs.

#### 6.2.4 Right of repayment and cancellation in relation to a single Lender

- (1) If:
  - (i) any sum payable to any Lender by an Obligor is required to be increased under Clause 8.1.2 (*Tax gross-up*); or
  - (ii) any Lender claims indemnification from the Obligor under Clause 8.1.3 (*Tax indemnity*) or Clause 8.2 (*Increased costs*);

the Borrower may, whilst the circumstances referred to in items (i) or (ii) continue, give the Facility Agent notice of cancellation of the Commitment of that Lender and its intention to procure the repayment of that Lender's participation in the Loan.

- (2) On receipt of a notice referred to in paragraph (1) above, the Commitment of that Lender shall immediately be reduced to zero.
- (3) On the last day of the Interest Period during which the Borrower has given notice under paragraph (1) above, the Borrower shall repay that Lender's participation in the Loan.

#### 6.2.5 Restrictions

- (1) Any notice of cancellation or prepayment given by any Party under this Clause 6.2 (*Prepayment and Cancellation*) shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- (2) Any prepayment of this Agreement shall be made, subject to any Break Costs, together with accrued interest on the amount prepaid.
- (3) Any prepayment under this Clause 6.2 (*Prepayment and cancellation*) shall satisfy the obligations of the Borrower in inverse order of maturity.
- (4) The Borrower shall not repay or prepay all or any part of the Loan except at the times and in the manner expressly provided for in this Agreement.
- (5) No amount of the Total Commitments cancelled under this Agreement may be subsequently reinstated.



- (6) If the Facility Agent receives a notice under this Clause 6.2 (*Prepayment and Cancellation*) it shall promptly forward a copy of that notice to either the Borrower or the affected Lender, as appropriate.

## **SECTION 7**

### **COSTS OF UTILIZATION**

#### **7.1 Interest**

##### **7.1.1 Calculation of interest**

Subject to Clauses 7.1.3 (*Default Interest*) and 7.3 (*Changes to the calculation of interest*) and this Clause 7.1.1 (*Calculation of interest*), the rate of interest on each Loan for the Interest Period is the percentage rate per annum which is the aggregate of the applicable:

- (i) Margin; and
- (ii) Applicable Interbank Rate; and
- (iii) Mandatory Costs.

##### **7.1.2 Payment of interest**

The Borrower shall pay accrued interest on a Loan on the last day of each Interest Period.

##### **7.1.3 Default Interest**

- (1) Upon occurrence of an Event of Default, for as long as an Event of Default continues default interest shall accrue on the Loan at a rate which is 2 (two) per cent higher than the rate which is specified in Clause 7.1.1 (*Calculation of Interest*).
- (2) Default interest (if unpaid) will be compounded with the overdue amount at the end of each Interest Period applicable but will remain immediately due and payable.

##### **7.1.4 Timing of payment**

Default interest shall be immediately due and payable by the Borrower on demand by the Facility Agent.

##### **7.1.5 Notification of rates of interest**

The Facility Agent shall promptly notify the Lenders and the relevant Borrower of the determination of a rate of interest under this Agreement.

#### **7.2 Interest Periods**

##### **7.2.1 Duration of Interest Periods:**

- (1) Each Loan has successive Interest Periods.



- (2) Subject to the following provisions of this Clause 7.2 (*Interest Periods*), each Interest Period will be each period of one (1) Month;
- (3) Each Interest Period:
  - (i) shall start:
    - (A) with respect to the first Interest Period - on the Utilisation Date of the Facility and shall be calculated starting from the Utilization Date (including such date) or
    - (B) with respect to successive Interest Periods - on the day which follows the last day of a preceding Interest Period and shall be calculated starting from this date; and
  - (ii) shall end:
    - (A) with respect to the first Interest Period - on the last day of the Month of such Interest Period and shall be calculated until such date (excluding such date) or
    - (B) with respect to successive Interest Periods - on the last day of the Month of such Interest Period and shall be calculated until such date (excluding such date) and provided that the last Interest Period for the Loan shall not extend beyond the Final Repayment Date.

#### 7.2.2 Non-Business Days:

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that Month (if there is one) or the preceding Business Day (if there is not).

### 7.3 Changes To The Calculation Of Interest

#### 7.3.1 Absence of quotations

Subject to Clause 7.3.2 (*Market disruption*), if the Applicable Interbank Rate is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the Applicable Interbank Rate shall be determined on the basis of the quotations of the remaining Reference Banks.

#### 7.3.2 Market disruption

- (1) If a Market Disruption Event occurs in relation to a Loan for any Interest Period, then the rate of interest on each Lender's share of that Loan for the Interest Period shall be the percentage rate per annum which is the sum of:
  - (i) the Margin;



- (ii) the rate notified to the Facility Agent by that Lender as soon as practicable and in any event before interest is due to be paid in respect of that Interest Period, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its participation in that Loan from whatever source it may reasonably select; and
- (iii) the Mandatory Cost, if any, applicable to that Lender's participation in the Loan.

(2) In this Agreement "**Market Disruption Event**" means:

- (i) at or about noon on the Quotation Day for the relevant Interest Period the Screen Rate is not available and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine the Applicable Interbank Rate for the relevant Interest Period; or
- (ii) a Lender determines that it will not be able to obtain funding in the currency in the amount of its participation in a Loan for such Interest Period.

7.3.3 Alternative basis of interest or funding

- (1) If a Market Disruption Event occurs and the Facility Agent or the Borrower so requires, the Facility Agent and the Borrower shall enter into negotiations (for a period of not more than thirty days) with a view to agreeing a substitute basis for determining the rate of interest.
- (2) Any alternative basis agreed pursuant to paragraph (1) above shall, with the prior consent of all the Lenders and the Borrower, be binding on all Parties.

7.3.4 Break Costs

- (1) Each Borrower shall, within three Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by that Borrower on a day other than the last day of an Interest Period for that Loan or Unpaid Sum.
- (2) Each Lender shall, as soon as reasonably practicable after a demand by the Facility Agent, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

7.4 Fees

7.4.1 Arrangement fee

- (1) The Borrower shall pay to the Arranger an arrangement fee with respect to the Facility (the "**Arrangement Fee**") in accordance with the terms of the Fee Letter.
- (2) The Borrower shall pay the Arrangement Fee from its own funds.



**SECTION 8**  
**ADDITIONAL PAYMENT OBLIGATIONS**

8.1 Tax Gross Up And Indemnities

8.1.1 Definitions

In this Clause 8.1 (*Tax Gross up and Indemnities*):

**“Protected Party”** means a Finance Party which is or will be subject to any liability, or required to make any payment, for or on account of Tax in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document;

**“Qualifying Lender”** means a Lender which

- (a) is a company resident in Poland for the Polish tax purposes; or
- (b) has its registered seat and place of management outside Poland and is lending through its permanent establishment in Poland, income payments to which are exempt from any requirement to deduct Tax imposed by any tax authority in Poland; or
- (c) is a Treaty Lender with its principal office and tax residence in an OECD member state.

**“Tax Credit”** means a credit against, relief or remission for, or repayment of any Tax;

**“Tax Deduction”** means a deduction or withholding for or on account of Tax from a payment to be made under a Finance Document; and

**“Tax Payment”** means either an increased payment made by the Borrower to a Finance Party under Clause 8.1.2 (*Tax gross-up*) or a payment under Clause 8.1.3 (*Tax indemnity*).

**“Treaty Lender”** means a Lender which, on the date of payment of interest under this Agreement, fulfils all the conditions imposed by any double taxation treaty in force on that date to which Poland is a party, for the payment to be made without any deduction and free and clear of and without any deduction for or on account of any Taxes.

Unless a contrary indication appears, in this Clause 8.1 (*Tax gross up and indemnities*) a reference to “*determines*” or “*determined*” means a determination made in the absolute discretion of the person making the determination.

8.1.2 Tax gross-up

- (1) Each Obligor shall make all payments to be made by it under the Finance Documents without any Tax Deduction, unless a Tax Deduction is required by provisions of law.
- (2) The Borrower shall promptly upon becoming aware that an Obligor must make a Tax deduction (or that there is any change in the rate or the basis of a Tax Deduction)





notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Borrower.

- (3) If a Tax Deduction is required by provisions of law to be made by an Obligor, the amount of the payment due from that an Obligor shall be increased to an amount which (after making any Tax Deduction) leaves the Finance Party entitled to such payment with an amount equal to the amount of the payment which would have been due if no Tax Deduction had been required.
- (4) An Obligor is not required to make an increased payment to a Lender under paragraph (3) above for a Tax Deduction in respect of tax imposed by the Republic of Poland on a payment of interest on a Loan, if on the date on which the payment falls due:
  - (i) the payment could have been made to the relevant Lender without a Tax Deduction if it was a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any provisions of law or Treaty, or any published practice or concession of any relevant taxing authority; or
  - (ii) the relevant Lender is a Treaty Lender and an Obligor making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under paragraph (7) below.
- (5) If an Obligor is required to make a Tax Deduction, that the Obligor shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by provisions of law.
- (6) Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, an Obligor making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- (7) A Treaty Lender and an Obligor which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that an Obligor to obtain authorization to make that payment without a Tax Deduction (including, but not limited to providing that Obligor with the certificate of that Treaty Lender's tax residence issued by the competent tax authority).

#### 8.1.3 Tax indemnity

- (1) The Borrower shall (within three Business Days of demand by the Facility Agent) pay or procure payment to a Protected Party an amount equal to the loss, liability or cost which that Protected Party determines will be or has been (directly or indirectly) suffered for or on account of Tax by that Protected Party in respect of any sum



received or receivable (or any sum deemed for the purposes of Tax to be received or receivable under) a Finance Document.

(2) Paragraph (1) above shall not apply:

(i) with respect to any Tax assessed on a Finance Party:

- (A) under the law of the jurisdiction in which that Protected Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Protected Party is treated as resident for Tax purposes; or
- (B) under the law of the jurisdiction in which that Protected Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Protected Party; or

(ii) to the extent a loss, liability or cost:

- (A) is compensated for by an increased payment under Clause 8.1.2 (*Tax gross-up*); or
- (B) would have been compensated for by an increased payment under Clause 8.1.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in paragraph (4) of Clause 8.1.2 (*Tax gross-up*) applied.

- (3) A Protected Party making, or intending to make a claim under paragraph (1) above shall promptly notify the Facility Agent of the event which will give, or has given, rise to the claim, following which the Facility Agent shall notify the Borrower.
- (4) A Protected Party shall, on receiving a payment from the Borrower under this Clause 8.1.3 (*Tax indemnity*) notify the Facility Agent.

#### 8.1.4 Tax Credit

If an Obligor makes a Tax Payment and the relevant Finance Party, acting reasonably, determines that:

- (1) a Tax Credit is attributable to that Tax Payment; and
- (2) that Finance Party has obtained, utilized and retained that Tax Credit,
- (3) the Finance Party shall pay an amount to the Obligor which that Finance Party determines will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been made by the Obligor.



#### 8.1.5 Stamp taxes

The Borrower shall pay and, within five Business Days of demand, indemnify each Finance Party against any cost, loss or liability that such Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of entry into any Finance Document.

#### 8.1.6 Value added tax

- (1) All consideration expressed to be payable under a Finance Document by any Party to a Finance Party shall be deemed to be exclusive of any VAT. If VAT is properly chargeable on any supply made by any Finance Party to any Party in connection with a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying the consideration) an amount equal to the amount of the VAT.
- (2) If VAT is chargeable on any supply made by any Finance Party (the “**Supplier**”) to any other Finance Party (the “**Recipient**”) under a Finance Document, and any Party (the “**Relevant Party**”) is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Relevant Party an amount equal to any credit or repayment from the relevant tax authority which it reasonably determines relates to the VAT chargeable on that supply.
- (3) Where a Finance Document requires any Party to reimburse a Finance Party for any costs or expenses, that Party shall also at the same time pay and indemnify the Finance Party against all VAT incurred by the Finance Party in respect of the costs or expenses to the extent that the Finance Party reasonably determines that it is not entitled to credit or repayment from the relevant tax authority in respect of the VAT.

### 8.2 Increased Costs

#### 8.2.1 Increased Costs

- (1) Subject to Clause 8.2.3 (*Exceptions*), the Borrower shall within three (3) Business Days of a demand by the Facility Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of:
  - (i) the introduction of or any change in (or in the interpretation, administration or application of) any provision of law or regulation after the date of this Agreement; or
  - (ii) compliance with any law or regulation made after the date of this Agreement.



(2) In this Agreement “**Increased Costs**” means:

- (i) a reduction in the rate of return from a Facility or on a Finance Party’s (or its Affiliate’s) overall capital;
- (ii) an additional or increased cost; or
- (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its Commitment or funding or performing its obligations under any Finance Document.

#### 8.2.2 Increased Cost claims

- (1) A Finance Party intending to make a claim pursuant to Clause 8.2 (*Increased Costs*) shall notify the Facility Agent of the event giving rise to the claim, following which the Facility Agent shall promptly notify the Borrower.
- (2) Each Finance Party shall, as soon as practicable after a demand by the Facility Agent, provide a certificate confirming the amount of its Increased Costs (and providing information on their nature and calculation).

#### 8.2.3 Exceptions:

- (1) Clause 8.2 (*Increased Costs*) does not apply to the extent any Increased Cost is:
  - (i) attributable to a Tax Deduction required by provisions of law to be made by an Obligor;
  - (ii) compensated for by Clause 8.1.3 (*Tax indemnity*) (or would have been compensated for under Clause 8.1.3 (*Tax indemnity*) but was not so compensated solely because the exclusion in paragraph (2) of Clause 8.1.3 (*Tax indemnity*) applied);
  - (iii) compensated for by the payment of the Mandatory Cost; or
  - (iv) attributable to the wilful breach by the relevant Finance Party or its Affiliates of any provision of law or regulation.
- (2) In this Clause 8.2, a reference to a “**Tax Deduction**” has the same meaning given to the term in Clause 8.1.1 (*Definitions*).

### 8.3 Other Indemnities

#### 8.3.1 Currency indemnity

- (1) If any sum due from an Obligor under the Finance Documents (a “**Sum**”), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the “**First Currency**”) in which that Sum is payable into another currency (the “**Second Currency**”) for the purpose of:



- (i) making or filing a claim or proof against that Obligor;
  - (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,
- that Obligor shall as an independent obligation, within five Business Days of demand, indemnify each Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (1) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (2) the rate or rates of exchange available to that person at the time of its receipt of that Sum.
- (2) Each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

#### 8.3.2 Miscellaneous indemnities

The Borrower shall (or procure that an Obligor will) within three Business Days of demand indemnify each Finance Party against any funding or other costs, loss, expense or liability sustained by such Finance Party as a consequence of:

- (1) the occurrence or continuance of any Event of Default;
- (2) a failure by the Obligor to pay any amount due under a Finance Document on its due date including any cost, loss or liability arising as a result of Clause 14.3 (*Sharing among the Finance Parties*);
- (3) funding, or making arrangements to fund, its participation in a Loan requested by the Borrower in a Utilization Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that Finance Party alone);
- (4) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower; or
- (5) the taking, holding, protection or enforcement of the Security constituted by the Security Documents.

#### 8.3.3 Indemnity to the Agents

The Borrower shall or shall procure that an Obligor shall promptly indemnify the Facility Agent and the Security Agent against any cost, loss or liability incurred by them (acting reasonably) as a result of:

- (1) investigating any event which it reasonably believes is a Default; or



- (2) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorized.

#### 8.4 Mitigation By The Lenders

##### 8.4.1 Mitigation

- (1) Each Finance Party shall (in consultation with the Borrower), take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to any of Clause 6.2.1 (*Illegality*), Clause 8.1 (*Tax gross up and indemnities*) or Clause 8.2 (*Increased costs*) including (but not limited to) transferring its rights and obligations under the Finance Documents to another Affiliate or Facility Office.
- (2) Paragraph (1) above does not in any way limit the obligations of any Obligor under the Finance Documents.

##### 8.4.2 Limitation of liability

- (1) The Borrower shall indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 8.4.1 (*Mitigation*).
- (2) A Finance Party is not obliged to take any steps under Clause 8.4.1 (*Mitigation*) if, in the opinion of the Finance Party (acting reasonably), to do so might be prejudicial to it.

#### 8.5 Costs And Expenses

##### 8.5.1 Transaction expenses

The Borrower shall or shall procure that an Obligor shall promptly on demand (whether or not the Facility is utilized) reimburse the Finance Parties the amount of all costs and expenses reasonably incurred by any of them in connection with the Finance Documents executed after the date of this Agreement and syndication of the Loan, provided that any such costs and expenses require prior approval from the Borrower, any such approval from the Borrower not being unreasonably refused or withheld. Notwithstanding the foregoing no cost shall be charged by the Finance Parties in connection with (i) the negotiation and execution of Finance Documents executed until and including the date of this Agreement and (ii) issuance of the legal opinions mentioned in Schedule 2 point 1.6 and 1.7. Such costs shall borne by the Finance Parties.

##### 8.5.2 Amendment costs

If (a) an Obligor requests an amendment, waiver or consent or (b) an amendment is required pursuant to Clause 15.1.9 (*Change of currency*), the Borrower shall, within three Business Days of demand, reimburse the Facility Agent for the amount of all costs and expenses (including legal fees) reasonably incurred by the Facility Agent in responding to, evaluating, negotiating or complying with that request or requirement. The Facility Agent shall inform the Borrower of the costs or the expected costs referred to above prior to such costs being incurred.



#### 8.5.3 Enforcement costs

The Borrower shall, within three Business Days of demand, pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by that Finance Party in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

#### 8.5.4 Mandatory Costs

- (1) If any Lender is obliged to make a payment into the Bank Guarantee Fund as a result of it maintaining its Commitment, or making, funding or maintaining any Loan made or to be made under this Agreement, the Borrower shall, or shall procure that an Obligor shall, within ten (10) Business Days after being so demanded, pay such amount as will fully compensate that Lender for such payment.
- (2) For the purposes of the Borrower's payment obligations under paragraph (1) above, each Lender may apply any amount standing to the credit of an account of a Borrower held with such Lender in or towards such payment.
- (3) A Lender shall notify the Facility Agent and the Borrower of any application made by it pursuant to paragraph (2) above.

### **SECTION 9** **REPRESENTATIONS**

#### 9.1 Representations

The Borrower for itself (and in the name and on behalf of each of the Obligor) makes the representations and warranties set out in this Clause 9.1 (*Representations*) to each Finance Party on the date of this Agreement.

##### 9.1.1 Status

Each Obligor is a company with a limited liability (in form of a joint stock company or a limited liability company or similar), duly incorporated, validly existing under the laws of its jurisdiction of incorporation and has the power and all necessary governmental and other consents, approvals, licenses and authorities in any applicable jurisdiction to own its assets and carry on its business.

##### 9.1.2 Powers

The obligations expressed to be assumed by the Obligors in each of the Finance Documents are legal and valid obligations binding on each respective Obligor and enforceable against it in accordance with the terms thereof.





#### 9.1.3 Due Authorizations

All Authorizations required by each Obligor in connection with the entry into, performance, validity and enforceability of and admissibility in evidence in the jurisdiction of its incorporation of and the transactions contemplated by the Finance Documents have been obtained or effected (as appropriate) and are in full force and effect, except for any filings, applications and registrations of Security Documents which can only be made after the date of this Agreement.

#### 9.1.4 Binding obligations

The obligations expressed to be assumed by each Obligor in each Finance Document to which it is a party are the legal, valid and binding obligation (subject to all necessary registrations of the Security Documents) enforceable in accordance with its terms

#### 9.1.5 Non-conflict with other obligation

The execution and performance by the Obligor of, and the transactions contemplated by, the Finance Documents do not and will not:

- (1) conflict with any agreement or instrument to which the Obligor is a party or which is binding upon it or any of its assets and in particular with Existing Financing, the Indenture, the Notes and the Notes Guarantees;
- (2) conflict with the constitutional documents of the Obligor;
- (3) conflict with any applicable law or regulation; or
- (4) cause the Obligor to create a Security over any of its assets other than provided by the Security Documents.

#### 9.1.6 Governing law and enforcement

- (1) The choice of Polish law as the governing law of the Finance Documents (except for Pledge over the Shares with respect to Bols Hungary, which shall be governed by Hungarian law) will be recognized and enforced in the jurisdiction of incorporation of each Obligor.
- (2) Any judgment obtained in Poland in relation to a Finance Document will be recognized and enforced in its jurisdiction of incorporation.

#### 9.1.7 Deduction of Tax

No Obligor is required under the law of its jurisdiction of incorporation to make any deduction for or on account of Tax from any payment it may make under any Finance Document, save as otherwise provided in this Agreement.



#### 9.1.8 No filing or stamp taxes

Under the law of the jurisdiction of incorporation of each Obligor it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction (other than the filing and/or registration of any Security Document at the central register of pledges in the Republic of Poland and the respective filings made with respect to Pledge over Shares issued by Bols Hungary) and a notification to appropriate banking supervision authorities pursuant to foreign exchange regulations) or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents except stamp duty, notarial fees and taxes payable in respect of the Security Documents.

#### 9.1.9 Ranking of liabilities

The payment obligations of each Obligor under the Finance Documents constitute its direct and unconditional obligations and rank at least *pari passu* in right and priority of payment with all the other present and future unsecured indebtedness of such Obligor), except for indebtedness mandatory preferred by law applying to companies generally or by reason of a Permitted Security. The Borrower has taken all necessary action to procure that obligations of respective Obligors under the Finance Documents comply with the requirements arising under the Indenture requiring the Financial Indebtedness of the Obligors to rank *pari passu* in right and priority of payment with all their the present and future indebtedness under the Indenture, the Notes and the Notes Guarantees.

#### 9.1.10 Financial Indebtedness

No Obligor has any Financial Indebtedness other than Permitted Financial Indebtedness.

#### 9.1.11 Security

There is no Security affecting any of the assets of any Obligor except Permitted Security and neither the execution of any Security Document by any of the Obligor, nor its exercise of its rights under any such document, will result in the existence of, or oblige any Obligor to create, any Security in favour of any person (other than a Finance Party and holders of the Notes).

#### 9.1.12 No Default

- (1) No Event of Default has occurred and is continuing or might reasonably be expected to result from the execution of, or the performance of any transaction contemplated by any Finance Document.
- (2) No Obligor is in breach of or in default under any agreement to which it is a party or which is binding on it or any of its assets or any law binding on it to an extent or in a manner which could reasonably be expected to have a Material Adverse Effect.



#### 9.1.13 No winding - up

No Obligor has taken any corporate action, nor have any other steps been taken or legal proceedings been started or (so far as the senior officers of the Borrower are aware) threatened against any Obligor by any of its creditors and other entities which is, in each case, continuing, for:

- (1) its winding-up, dissolution, insolvency, bankruptcy, administration or re-organization (whether by voluntary arrangement, scheme of arrangement or otherwise save as previously approved by all the Lenders in writing); or
- (2) the enforcement of any Security over all or any of its revenues or assets; or
- (3) the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its assets or revenues.

#### 9.1.14 Non-disclosure

The Borrower has not failed to disclose to the Facility Agent any matters of which they are aware which would reasonably to expect to be material to:

- (1) any Obligor's ability to pay any indebtedness under any Finance Document; or
- (2) any Obligor's ability to comply with any Finance Documents or the validity or enforceability of any Finance Document; or
- (3) the willingness of the Lenders to provide the Facility to the Borrower.

#### 9.1.15 Completeness of disclosed information

- (1) All written information supplied by the Borrower, or on behalf of the Borrower or on behalf of the Obligor to the Facility Agent or its advisers is true, complete and accurate in all material respects and is not misleading in any material respect. Nothing has occurred or been omitted since the date the information was provided which renders the information untrue or misleading in any material respect. No information has been knowingly withheld which if disclosed would have a Material Adverse Effect.
- (2) The financial projections delivered to the Facility Agent have been prepared in a good faith, and were believed by the Borrower to be true and accurate in all material respects at the time they were submitted to the Facility Agent and additionally in respect to the financial projections have been prepared on the basis of reasonable assumptions.

#### 9.1.16 Financial Statements

The Original Financial Statements or, where this representation is repeated pursuant to Clause 9.9.26 (*Repetition*), the most recent Financial Statements, (including their notes) give a true and fair view of the state of affairs (or, in the case of management accounts, present with reasonable accuracy the financial position) of the Borrower or the Group or the Obligors (as the case may be) at the date to which they were made up and have been prepared in accordance with GAAP consistently applied. Additionally, individual Financial Statements of



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the Borrower and the respective Obligor, and their accounting procedures, comply with the requirements arising under the applicable local accounting standards, such as PAS (with respect to Polish companies).

#### 9.1.17 Liability

So far as the Borrower or any other Obligor is aware, there are no circumstances which are likely to give rise to a third party claim against any Obligor, which if adversely determined against such Obligor member, are reasonably likely to have a Material Adverse Effect.

#### 9.1.18 Intellectual Property Rights

Each of the Obligor:

- (1) is the sole legal and beneficial owner of or has licensed to it all the Intellectual Property which is material in the context of its business and which is required by it in order to carry on its business as it is being conducted; and
- (2) does not, in carrying on its business, infringe any Intellectual Property of any third party in any respect which has or is reasonably likely to have a Material Adverse Effect.

#### 9.1.19 Tax liabilities

- (1) No Tax claims are being or are reasonably likely to be assessed against any Obligor which are not provided for in its last audited accounts, which are likely to be determined against it and which, if asserted, are (individually or collectively) reasonably likely to have a Material Adverse Effect.
- (2) No Obligor is overdue in the filing of any Tax returns the non filing of which is reasonably likely to have a Material Adverse Effect.
- (3) Each Obligor either:
  - (a) has paid all taxes shown to be due on such returns or on any assessments made against it, except:
    - (ii) Taxes being diligently contested in good faith, for which it has provided adequate reserves in the Original Financial Statements; or
    - (iii) if non-payment, or a claim for payment of which is not reasonably likely to have a Material Adverse Effect; or
  - (b) has provided for payment in the Original Financial Statements.

#### 9.1.20 Environmental compliance

- (1) The Obligor have performed in all material respects, all material covenants, conditions, restrictions, agreements, statutory requirements, planning consents,



bye- laws, orders and regulations affecting any property which any Obligor is or has occupied or conducted any activity in, including relating to the Environment, no notice of any breach of any such matter has been received and as far as the Borrower is aware, there are no grounds for any such notice being issued.

- (2) Obligors have no actual or potential material liability relating to the Environment in connection with its acts or omissions or (to their best knowledge) in connection with the acts or omissions of any predecessor in title to any of their properties.
- (3) If required, the Obligors are, and have at all times been, in compliance in all material respects with Environmental Laws.
- (4) Obligors have obtained and is, and has at all times been, in substantial compliance, in all material respects, with Environmental Permits and no circumstances exist which are reasonably likely to prevent or interfere with such compliance in the future.

#### 9.1.21 Compliance with laws

Each Obligor is in material compliance with all provisions of law applicable to them and their business.

#### 9.1.22 Immunity

The Finance Documents and the transactions contemplated by the Finance Documents are commercial rather than public or governmental acts and no Obligor is entitled to claim immunity from legal proceedings with respect to itself or any of its assets on the grounds of sovereignty or otherwise under any provision of law or in any jurisdiction where any action may be brought for the enforcement of any of the obligations arising under or relating to the Finance Documents.

#### 9.1.23 Material Adverse Change

Since the date of the most recent Financial Statements delivered to the Facility Agent there has been no development or event which has had, or could reasonably be expected to have, a Material Adverse Effect.

#### 9.1.24 No proceedings pending or threatened

Except as revealed to the Facility Agent in writing (to the extent satisfactory to the Agent) prior to the execution of this Agreement, no litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency have been started or threatened against the Borrower and the Obligors.

#### 9.1.25 Repetition

The Repeating Representations are deemed to be made by the Borrower (for itself and each Obligor) by reference to the facts and circumstances then existing on:

- (i) on the date of this Agreement;



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- (ii) the date of each Utilization Request;
- (iii) on each Utilization Date;
- (iv) on the first day of each Interest Period; and
- (v) each date on which the most recent Financial Statements are furnished to the Facility Agent.

## SECTION 10

### UNDERTAKINGS AND POSITIVE COVENANTS

#### 10.1 Information Undertakings

The undertakings in this Clause 10.1 (*Information undertakings*) remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

##### 10.1.1 Financial statements

The Borrower and CEDC shall supply to the Facility Agent:

- (1) as soon as the same become available, but in any event within one hundred eighty (180) days after the end of each of its financial years (save for the Borrower's audited (consolidated, if appropriate) financial statements for that financial year, which will be supplied to the Facility Agent as soon as practicable) its audited (consolidated, if appropriate) financial statements for that financial year; and
- (2) as soon as the same become available, but in any event within thirty (45) days after the end of each Quarter Date, its unaudited quarterly financial statements (i.e. quarterly report on Form 10-Q for CEDC and GUS's F-01 for the Borrower) certified by the Management Board of the Borrower;
- (3) upon occurrence of an Event of Default, within ten (10) days after the end of each month balance sheet, income statement and cash flow statement.

In respect of the CEDC financial statements the above requirements shall be deemed to be fulfilled if the Borrower or CEDC notifies the Facility Agent in writing within respective term provided for above that CEDC financial statement has been published and is publicly available on the web site of the US Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)), together with indication of exact location (link) of given financial statement on the above page.



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**10.1.2 Additional documents**

The Borrower shall supply to the Facility Agent:

- (1) together with financial statement mentions in Clause 10.1.1 (*Financial statements*) paragraph (1) and (2) ageing structure of its trade receivables divided into: regular, overdue up to 30/ 60/ 90/ 360 and overdue above 360 days.
- (2) by March 31 of each year, the up-dated budget of this year.

**10.1.3 Compliance Certificate**

- (1) The Borrower shall supply to the Facility Agent, together with the quarterly financial statements, a Compliance Certificate setting out in particular (in a reasonable detail) computations as to compliance with Clause 10.2 (*Financial condition*) as at the date as at which those financial statements were drawn up and containing confirmations that no Default nor Event of Default exists.
- (2) Each Compliance Certificate shall be signed by an authorized director of the Borrower.

**10.1.4 Requirements as to financial statements**

- (1) Each set of financial statements delivered by the Borrower pursuant to Clause 10.1.1 (*Financial statements*) shall, to the extent required by law, be certified by an authorized representative of the relevant company as fairly representing its financial condition as at the date as at which those financial statements were drawn up.
- (2) The Borrower shall procure that each set of financial statements of each Obligor delivered pursuant to Clause 10.1.1 (*Financial statements*) is prepared using US GAAP and PAS (as the case may be).

**10.1.5 Financial Year**

The Borrower shall ensure that Obligors do not alter their Financial Year.

**10.1.6 Auditor's certificate**

- (1) Following an Event of Default which is continuing or where the Facility Agent has reasonable grounds for believing that an Event of Default is continuing, the Facility Agent may require the Auditors to:
  - (i) verify to the Facility Agent's satisfaction any financial information required by the Finance Documents to be provided to the Facility Agent;
  - (ii) verify accuracy of Compliance Certificate and any figures required to calculate the financial covenants;
  - (iii) disclose to the Facility Agent or the Finance Parties such information as the Facility Agent may reasonably request; or
  - (iv) discuss with the Borrower the manner in which the Obligors are preparing the information to be supplied under this Agreement and the accuracy and





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reliability of such information and report their findings to the Facility Agent (provided that a representative of the Group shall be permitted to be present during any such discussions);

- (2) and if the Facility Agent, acting reasonably, remains concerned about the accuracy of such information, the Facility Agent may require an independent firm of accountants acceptable to the Facility Agent to carry out an appropriate investigation and give a certificate satisfactory to the Facility Agent concerning any matter referred to in paragraph (1) items (i) or (ii) above or the calculation of any term defined in Clause 10.2 (*Financial conditions*).
- (3) All investigations required by the Facility Agent under paragraph (1) shall be at the expense of the Borrower where an Event of Default is established to have been continuing. Where no Event of Default is established to have been continuing, such investigations shall be at the expense of the Borrower only where the Facility Agent is able to demonstrate that it acted on the basis of clear evidence supporting its belief that an Event of Default was continuing, provided that the Borrower shall not be required to pay the costs of more than one such investigation in any Financial Year or more than two such investigations over the duration of the Facility.

#### 10.1.7 "Know your customer" checks

- (1) If:
  - (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
  - (ii) any change in the status of an Obligor or the composition of the shareholders of an Obligor after the date of this Agreement; or
  - (iii) a proposed assignment or transfer by a Lender of any of its rights and/or obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of item (iii) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, each Obligor shall promptly upon the request of the Facility Agent or any Lender use all reasonable endeavours to supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in item (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in item (iii) above, any prospective new Lender to carry out and be satisfied with the results of all necessary "know your customer" or other checks in relation to any relevant person pursuant to the transactions contemplated in the Finance Documents.

- (2) Each Lender shall promptly upon the request of the Facility Agent supply, or procure



the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself) in order for the Facility Agent to carry out and be satisfied with the results of all necessary “know your customer” or other checks on Lenders or prospective new Lenders pursuant to the transactions contemplated in the Finance Documents.

#### 10.1.8 Information: miscellaneous

The Borrower shall supply to the Facility Agent:

- (1) on request, all material documents dispatched by the Borrower to its creditors ;
- (2) promptly upon becoming aware of them, the material details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against the Borrower, and which might, if adversely determined, have a Material Adverse Effect;
- (3) promptly upon becoming aware of them, details of any event which would, in the opinion of the Borrower result in the breach of any undertaking set out in Clause 10.2 (*Financial Condition*);
- (4) at the same time as they are dispatched copies of the documents relating to the intention of calling any meeting of the shareholders of the Borrower that is to amend the articles of agreement of the Borrower or adopt any resolutions having material effect on the Borrower’s business indicating the agenda thereof and copies of all minutes of the meetings of the shareholders of the Borrower and the complete text of all resolutions adopted without the formal conveyance of such meetings;
- (5) promptly, upon becoming aware of them, details of any circumstances, which result or may be reasonably expected to result in a Default or an Event of Default, such as in particular circumstances in the light of which the representations and warranties delivered under the Finance Documents appear to be untrue, incomplete or misleading;
- (6) promptly, such further information regarding the financial condition, business and operations of any member of the Group as any Finance Party (through the Facility Agent) may reasonably request.
- (7) promptly upon a request by the Facility Agent, a certificate signed by its management board members on its behalf certifying that no Default has occurred or is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

#### 10.2 Financial Condition

##### 10.2.1 Financial definitions

In this Clause 10.2 (*Financial Conditions*):



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“Asset Sale” means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights; provided that the sale, conveyance or other disposition of all or substantially all of the assets of CEDC and its Restricted Subsidiaries taken as a whole or of assets of the Borrower and its Restricted Subsidiaries taken as a whole will be governed by the respective provisions of the Indenture. (described under the caption “—Repurchase at the Option of Holders—Change of Control” and/or the caption “—Certain Covenants—Merger, Consolidation or Sale of Assets” and not by the provisions of the Asset Sale covenant; and
- (2) the issuance of Equity Interests in any Restricted Subsidiary of CEDC or the sale of Equity Interests in any of its Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than \$500,000;
- (2) a transfer of assets between or among CEDC and its Restricted Subsidiaries,
- (3) an issuance of Equity Interests by a Restricted Subsidiary of CEDC to CEDC or to a Restricted Subsidiary of CEDC;
- (4) the sale or lease of products (including, for the avoidance of doubt, user terminals), services or accounts receivable in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business;
- (5) the sale or other disposition of cash or Cash Equivalents;
- (6) a Restricted Payment that does not violate the covenant of the Indenture (under the caption “—Certain Covenants—Restricted Payments”) or a Permitted Investment;
- (7) the waiver, compromise, settlement, release or surrender of any right or claim in the ordinary course of business; and
- (8) the sale or other disposition or assets received by CEDC or any of its Restricted Subsidiaries in compromise or settlement of claims of CEDC or any of its Restricted Subsidiaries; *provided however* that the net cash proceeds of such sale or disposition are applied in accordance with the covenant described above under the Indenture (caption “—Repurchase at the Option of Holders—Asset Sales”).

“Attributable Debt” means in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the



rate of interest implicit in such transaction, determined in accordance with GAAP; *provided, however*, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of “**Capital Lease Obligation**.”

“**Board of Directors**” means:

- (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;
- (2) with respect to a partnership, the Board of Directors of the general partner of the partnership;
- (3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and
- (4) with respect to any other Person, the board or committee of such Person serving a similar function.

“**Calculation Day**” means the last day of the Calculation Period falling on every 31 March, 30 June, 30 September, 31 December of each year until Final Repayment Date. First Calculation Date falls on June 2007.

“**Calculation Period**” means each period of twelve months immediately preceding the Calculation Day and ending on the Calculation Day.

“**Capital Lease Obligations**” means, at the time any determination is to be made, the amount of the liability in respect of a capital or finance lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP, and the “**Stated Maturity**” thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“**Cash Equivalents**” means:

- (1) securities (i) issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality of the U.S. government (provided that the full faith and credit of the United States is pledged in support of those securities), or (ii) which are denominated in euros and are issued by, or directly and fully guaranteed or insured by a member of the European Union as of January 1, 2004 or the Republic of Poland on the Issue Date, or any agency or instrumentality thereof, in each case having maturities of not more than six months from the date of acquisition;
- (2) certificates of deposit, time deposits and other bank deposits in U.S. Dollars or Euro with maturities of six months or less from the date of acquisition, bankers’ acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of \$500.0 million and a rating of A-1/P-1 or better from Moody’s and S&P;



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- (3) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (1) and (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;
- (4) commercial paper having one of the two highest ratings obtainable from Moody's Investors Service, Inc. or Standard & Poor's Rating Services and in each case maturing within six months after the date of acquisition; and
- (5) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (4) of this definition.

**"Consolidated Coverage Ratio"** means, in a given Calculation Period, the ratio of EBITDA to the Fixed Charges.

**"Consolidated Net Income"** means "Consolidated Net Income" means, with respect to any Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided that:

- (1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;
- (2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its shareholders;
- (3) the cumulative effect of a change in accounting principles will be excluded;
- (4) notwithstanding clause (1) above, the Net Income of any Unrestricted Subsidiary will be excluded, whether or not distributed to the specified Person or one of its Subsidiaries; and
- (5) any expenses, charges or other costs related to the Transactions (including amortization of any such expenses, charges or other costs that have been capitalized) will be excluded.;

**"Disqualified Shares"** means any Equity Interests that, by their terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Equity Interests), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Equity Interests, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature. Notwithstanding the preceding sentence,



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any Equity Interests that would constitute Disqualified Shares solely because the holders of the Share Capital have the right to require CEDC to repurchase such Equity Interests upon the occurrence of a change of control or an asset sale will not constitute Disqualified Shares if the terms of such Equity Interests provide that CEDC may not repurchase or redeem any such Equity Interests pursuant to such provisions unless such repurchase or redemption complies with the covenant under the Indenture (under the caption “—Certain Covenants—Restricted Payments.”).

“**EBITDA**” means, for each Calculation Period, the Consolidated Net Income of CEDC; without duplication:

- (1) provision for taxes based on income or profits of CEDC and its Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; plus
- (2) the Fixed Charges of CEDC and its Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; plus
- (3) depreciation, amortization and any other non-cash items for such period to the extent deducted in determining Consolidated Net Income for such period (other than any non-cash item which requires the accrual of, or a reserve for, cash charges for any future period) of CEDC and the Subsidiaries (including amortization of capitalized debt issuance costs for such period and any non—cash compensation expense, realized for grants of stock options or other rights to officers, directors and employees), all of the foregoing determined on a consolidated basis in accordance with GAAP; plus
- (4) minority interests to the extent that such minority interests were deducted in computing Consolidated Net Income; minus
- (5) to the extent they increase Consolidated Net Income, net after-tax exceptional or non- recurring gains; plus
- (6) to the extent they decrease Consolidated Net Income, net after-tax exceptional or non- recurring losses; minus
- (7) to the extent they increase Consolidated Net Income, non-cash items (including the partial or entire reversal of reserves taken in prior periods, but excluding reversals of accruals or reserves for cash charges taken in prior periods and excluding the accrual of revenue in the ordinary course of business) for such period;

“**Equity Interests**” of any person means Share Capital and all warrants, options or other rights to acquire the Share Capital (but excluding the Indebtedness that is convertible into or exchangeable for Share Capital) of any person.

“**Fair Market Value**” means the value that would be paid by a willing buyer to a willing seller that is not an Affiliate of the buyer in a transaction not involving distress or necessity of either party, determined in good faith by the Board of Directors (unless otherwise provided in the Indenture).



**“Fixed Charges”** - means, without duplication:

- (1) the consolidated interest expense of CEDC and its Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of indebtedness issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers’ acceptance financings, and net of the effect of all expenses accrued or paid or payments received pursuant to Hedging Obligations; plus
- (2) the consolidated interest of such person and its Restricted Subsidiaries that was capitalized during such period; plus
- (3) any interest expense on Indebtedness of another person that is Guaranteed by such person or one of its Restricted Subsidiaries or secured by a Lien on assets of such person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; plus
- (4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preference shares of such person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of CEDC (other than Disqualified Shares) or to CEDC or a Restricted Subsidiary of CEDC, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined statutory income or corporation tax rate of such person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

**“Government Securities”** means direct obligations of, obligations fully guaranteed by, or participations in pools consisting solely of obligations of or obligations guaranteed by any country of the European Union that uses the Euro as its currency and participated in the EMU for the payment of which guarantee of obligations the full faith and credit of any country of the European Union that uses the Euro as its currency and participates in the EMU is pledged and which are not callable or redeemable at the option of CEDC thereof.

**“Guarantee”** means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

**“Hedging Obligations”** means, with respect to any specified person, the obligations of such person under:





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- (1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (2) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (3) other agreements or arrangements designed to protect such person against fluctuations in currency exchange rates or commodity prices.

**“Indebtedness”** means, with respect to any specified person, any indebtedness of such person (excluding accrued expenses and trade payables), without duplication, whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, Notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker’s acceptances;
- (4) representing Capital Lease Obligations or Attributable Debt in respect of sale and leaseback transactions;
- (5) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed; or
- (6) representing any Hedging Obligations, if and to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified person prepared in accordance with GAAP.

In addition, the term **“Indebtedness”** includes all Indebtedness of others secured by a Lien on any asset of the specified person (whether or not such Indebtedness is assumed by the specified person) and, to the extent not otherwise included, the Guarantee by the specified person of any Indebtedness of any other person.

**“Investment”** means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If CEDC or any Subsidiary of CEDC sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of CEDC such that, after giving effect to any such sale or disposition, such Subsidiary is no longer a Restricted Subsidiary of CEDC, CEDC will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of CEDC Investments in such



Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant under the Indenture (caption “—Certain Covenants—Restricted Payments.”). The acquisition by CEDC or any Subsidiary of CEDC of a Person that holds an Investment in a third person will be deemed to be an Investment by CEDC or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant under the Indenture (under the caption “—Certain Covenants—Restricted Payments.”) Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

“**Net Debt**” means any interest bearing debt (especially any credit facilities, loans, obligations resulting from the financial transactions as well as any indebtedness under the Notes) minus any cash positions reported in the balance sheet.

“**Net Debt Ratio**” means, in a given Calculation Period, the ratio of Net Debt to EBITDA.

“**Net Income**” means, with respect to any specified person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preference shares dividends, *excluding, however:*

- (1) any gain or loss, together with any related provision for taxes on such gain or loss, realized in connection with (a) any Asset Sale or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; and
- (2) any extraordinary gain or loss, together with any related provision for taxes on such extraordinary gain or loss.

“**Person**” means any individual, corporation, company, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company or government or other entity.

“**Permitted Investment**” means:

- (1) any Investment in CEDC or in a Restricted Subsidiary of CEDC;
- (2) any Investment in Cash Equivalents or Government Securities;
- (3) any Investment by CEDC or any Restricted Subsidiary of CEDC in a person, if as a result of such Investment: (a) such person becomes a Restricted Subsidiary of CEDC; or (b) such person is merged, consolidated, amalgamated or otherwise combined with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, CEDC or a Restricted Subsidiary of CEDC;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant under the Indenture (under the caption “—Repurchase at the Option of Holders—Asset Sales “);



- (5) any acquisition of assets or Share Capital solely in exchange for the issuance of Equity Interests (other than Disqualified Shares) of CEDC;
- (6) any Investments received in compromise or resolution of (a) obligations of trade creditors or customers that were incurred in the ordinary course of business of CEDC or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (b) litigation, arbitration or other disputes with Persons who are not Affiliates;
- (7) Investments represented by Hedging Obligations;
- (8) loans or advances to employees made in the ordinary course of business of CEDC or the Restricted Subsidiary of CEDC in an aggregate principal amount not to exceed \$1.0 million at any one time outstanding;
- (9) repurchases of the Notes;
- (10) Investments existing on the Issue Date and any amendment, modification, restatement, supplement, extension, renewal, refunding, replacement or refinancing, in whole or in part, thereof;
- (11) Investments constituting Permitted Business Investments, the sum of which does not exceed the greater of \$5.0 million at any time outstanding; and
- (12) other Investments in any person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (12) that are at the time outstanding of no more than \$10.0 million.

**“Permitted Business”** means (i) the production and bottling of vodka and other alcoholic beverages and sales thereof, (ii) the importing, exporting, transportation, distribution and sale of beverages (including alcoholic beverages), cigars and cigarettes and other fast moving consumer goods; and (iii) any activity or business that is a reasonable extension or expansion of, or reasonably related to, the business described in the preceding clauses (i) and (ii).

**“Permitted Business Investments”** means an Investment in any Person the primary business of which consists of a Permitted Business.

**“Restricted Subsidiary”** - means any Subsidiary of a given Person which is not Subsidiary designated by the board of directors of CEDC as an *“Unrestricted Subsidiary”* pursuant to the terms and conditions specified in the Indenture.

**“Share Capital”** means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;



- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Share Capital, whether or not such debt securities include any right of participation with Share Capital.

**“Unrestricted Subsidiary”** means any Subsidiary of CEDC that designated by the board of directors of CEDC as an *“Unrestricted Subsidiary”* pursuant to the terms and conditions specified in the Indenture.

#### 10.2.2 Financial covenants

The Borrower shall ensure that:

- (1) the Consolidated Coverage Ratio, at each Calculation Date will be not less than 2,25:1 calculated for the Calculation Period;
- (2) the Net Debt Ratio, at each Calculation Date will be less than 5,5:1 calculated for the Calculation Period.

#### 10.3 Positive Covenants

Unless the Facility Agent shall have previously agreed otherwise, the Borrower shall procure that each Obligor shall:

##### 10.3.1 Authorizations

Promptly obtain, maintain and comply with the material terms of any authorisation necessary under any law or regulation of its jurisdiction of incorporation to ensure the legality, validity, enforceability of any Finance Documents,

##### 10.3.2 Compliance with laws

Comply in all respects with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its obligations under the Finance Documents.

##### 10.3.3 Compliance with other agreements

Duly comply with their contractual arrangement, where non-compliance with such arrangements could have Adverse Material Effect and in particular procure that the Obligors are in full compliance with the terms of the Indenture, the Notes and the Notes Guarantees.

##### 10.3.4 Ranking of liabilities

Subject to the next sentence, ensure that its payment obligations under the Finance Documents will constitute its direct and unconditional obligations and rank at least *pari passu* in right and priority of payment with all its other present and future indebtedness (except for indebtedness



mandatory preferred by provisions of law applying to companies generally or by reason of a Permitted Security). The Borrower shall take all necessary action to procure that obligations of respective Obligor under the Finance Documents comply with the requirements arising under the Indenture requiring the Financial Indebtedness of the Obligor to rank pari passu in right and priority of payment with all their the present and future indebtedness under the Indenture, the Notes and the Notes Guarantees.

#### 10.3.5 Insurance

Maintain insurances on and in relation to its business and assets with reputable underwriters or insurance companies against those risks and to the extent as is usual for companies carrying on the same or substantially similar business.

#### 10.3.6 Access

On prior notice which is reasonable in the circumstances being given to the Borrower by the Facility Agent, specifying the purpose of the contemplated action and to be given during normal business hours, permit employees of and approved by the Facility Agent's representatives or advisers of the Facility Agent and/or the Security Agent to have access to and inspect the property, assets, books and records of any Obligor.

#### 10.3.7 Environmental compliance

Comply in all respects with all Environmental Law and obtain and maintain any Environmental Permit and take all steps in anticipation of known or expected future changes to or obligations under the same, breach of which (or failure to obtain, maintain or take which) might be expected to have a Material Adverse Effect.

#### 10.3.8 Environmental claims

Inform the Facility Agent in writing if any Environmental Claim has been commenced or (to the best of the Borrower's knowledge and belief) is threatening against it or against any of the Obligor in any case where such claim would be likely, if adversely determined, to have a Material Adverse Effect or of any facts or circumstances which will or are likely to result in any Environmental Claim being commenced or threatening against the Obligor in any case where such claim would be likely, if determined against the Obligor, to have a Material Adverse Effect.

#### 10.3.9 Taxes

- (1) Pay all Taxes when due and payable by it within applicable time limits (including any grace period) (save where such Taxes are being diligently contested in good faith and for which the relevant Obligor has provided adequate reserves in its financial statements), and ensure to the greatest extent possible by such payment that no tax authority is entitled to any Security over the assets of any Obligor which ranks ahead of the Security.



- (2) Ensure that at all times the tax documentation required by the appropriate tax regulations for the transactions within the Group is prepared in relation to each such transaction, if the aggregate annual payments under such transaction amount to PLN 50,000 or more.

10.3.10 Intellectual property

Maintain, protect and safeguard the Intellectual Property Rights, except in circumstances where a failure to do so would not reasonably be expected to have a Material Adverse Effect.

10.3.11 Security

At its own expense, execute and do all such assurances, acts and things as the Security Agent or a Lender may require (except if by reason of syndication), for reinstating, re-executing, perfecting or protecting the security constituted or evidenced or purported to be constituted or evidenced by any of the Finance Documents.

10.3.12 Security Registration

Ensure that the Registered Pledge over the Shares is registered within three months from the date hereof and a pledge over quota of Bols Hungary is filed for registration with Chattel Register of the Hungarian Chamber of Notaries and evidence of such filing is delivered to the Facility Agent within 10 Business Days after the date of this Agreement. The Facility Agent shall in the event that no registration is obtained in spite of due care being exercised by the Borrower agree to prolong this period.

**SECTION 11**  
**NEGATIVE UNDERTAKINGS**

11.1 Obligation To Abstain From Certain Activities

Unless the Facility Agent shall have previously agreed otherwise, the Borrower and the Borrower shall procure that each Obligor shall not:

11.1.2 Restriction on Financial Indebtedness

The Borrower shall not incur or have outstanding any Financial Indebtedness other than Permitted Financial Indebtedness;

11.1.4 Announcements

Except as required by law, stock exchange regulations or any Government Authority, make, or permit any of its officers or employees to make, any press release or other media communication in connection with the Facility which refers to any Finance Party without previously agreeing its contents with the Facility Agent.



11.1.6 Change of the legal form

Until Final Repayment Date, the Obligors will not make any changes of the existing legal form. In case of entities which shall issue the Promissory Notes, change of the existing legal form is allowed but under prior written notification of the Lenders about planned change of legal form ;

**SECTION 12**  
**EVENTS OF DEFAULT**

12.1 Events Of Default

Each of the events or circumstances set out in this Clause 12.1 (*Events of Default*) is an Event of Default, irrespective of whether the Borrower and/or the respective Obligor is responsible for occurrence of such event or circumstances.

12.1.1 Non-payment

The Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place and in the currency in which it is expressed to be payable.

12.1.2 Misrepresentation

Any representation or statement made by the Borrower in any Finance Document or in any notice or other document, certificate or statement delivered by it or on its behalf pursuant hereto or in connection herewith is or proves to have been incorrect or misleading in any material respect when made or deemed to be made.

12.1.3 Specific covenants

The Borrower fails duly to perform or comply with any of the obligations expressed to be assumed by it in Clause 9 (*Representations*), Clause 10.1 (*Information Undertakings*), Clause 10.3 (*Positive Covenants*) or Clause 11 (*Negative Undertakings*).

12.1.4 Financial Condition

(1) At any time any of the requirements of Clause 10.2 (*Financial Condition*) is not satisfied.

12.1.5 Other obligations

An Obligor fails duly to perform or comply with any other obligation expressed to be assumed by it in this Agreement or any other Finance Document to which it is a party.

12.1.6 Cross-default

(1) any Financial Indebtedness of any of the Obligors becomes due and payable prior to its scheduled maturity, or is capable of becoming due and payable prior to its





scheduled maturity, as a result of an event of default (however described) or termination, acceleration, mandatory prepayment or other similar event (however described) under any document relating to the Financial Indebtedness of the Obligor;

- (2) any Financial Indebtedness of any of the Obligors or interest thereon is not paid when due;
- (3) any Financial Indebtedness of any of the Obligors becomes prematurely due and payable (or is capable of becoming due and payable), or is placed on demand (or is capable of being placed on demand) or any credit commitment of a bank or financial institution granting the Financial Indebtedness to the Obligor is cancelled or suspended (or is capable of being cancelled or suspended).

#### 12.1.7 Cross - default under the Indenture, the Notes or the Notes Guarantee

A default or an event of default under the Indenture, the Notes or the Notes Guarantees has occurred and is continuing, or Note holders for other reasons are capable of requesting the Notes to be repurchased, redeemed or otherwise repaid in full or in part prior to their maturity.

#### 12.1.8 Depreciation of Security

Any Security created in or pursuant to the Security Document becomes null, void, unenforceable, is not of the highest priority (if there is such priority) or has not been established in the form, content and the period required in the Finance Documents, subject to registration of the Pledges within the deadlines (and subject to same exception) set forth in Clause 10.3.12 (*Security Registration*).

#### 12.1.9 Insolvency proceedings

Any corporate action, legal proceedings or other formal procedure or step (a “**Proceeding**”) is taken in relation to:

- (1) a moratorium of any indebtedness under which the Obligor declares its inability to pay any and all of its debts, winding-up, dissolution, administration or reorganization (by way of voluntary arrangement, scheme of arrangement or otherwise) of any Obligor, other than the a solvent liquidation or reorganization of any Obligor which all the Lenders have previously approved in writing (such approval not to be unreasonably withheld, conditional or delayed); or
- (2) a composition, assignment or similar arrangement with any creditor of any Obligor resulting in a Material Adverse Effect; or
- (3) the appointment of a liquidator (other than in connection with a solvent liquidation approved in paragraph (1) above), receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of any Obligor or any of its assets; or
- (4) enforcement of any Security over any assets of any Obligor, or any analogues procedure or step is taken in any jurisdiction, which in the sole and reasonable opinion of the Lenders results in a deterioration of the Borrower’s ability to perform its obligations under the Finance Documents.



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**12.1.10 Creditors' process**

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of the Borrower of total value exceeding PLN 5,000,000.

**12.1.11 Failure to comply with a final judgment**

Any Obligor fails to comply with the terms of any final judgment or similar order or any non-final judgment or similar order in respect of an amount in excess of PLN 1,000,000 save where such judgment is being appealed in good faith and diligently by the relevant Obligor.

**12.1.12 Litigation**

Any litigation, arbitration, administrative, regulatory or other proceedings are commenced in respect of an Obligor, which if adversely determined are reasonably likely to have a Material Adverse Effect.

**12.1.13 Auditors' report**

The Auditors qualify their report to any audited accounts of CEDC so as to cast doubt on their accuracy in any material aspect or on the ability of the relevant company to continue as a going concern or otherwise in a manner considered by the Majority Lenders to have a Material Adverse Effect.

**12.1.14 Governmental intervention**

By or under the authority of any government the management of the Obligor is wholly or partially displaced or the authority of the Obligor in the conduct of its business is wholly or partially curtailed.

**12.1.16 The Borrower's Business**

The Obligor ceases to carry on the business it carries on at the date hereof or enters into any unrelated business.

**12.1.17 Repudiation**

An Obligor repudiates or does or causes to be done any act or thing evidencing an intention to repudiate any Finance Document to which it is a party.

**12.1.18 Illegality**

At any time it is or becomes unlawful for an Obligor to perform or comply with any or all of their respective obligations under any of the Finance Documents to which it is a party or any of the obligations of an Obligor under any of the Finance Documents or Project Documents to which it is respectively a party are not or cease to be legal, valid, binding and enforceable.



12.1.19 Material Adverse Effect

Any event or series of events occurs which has a Material Adverse Effect.

12.1.20 Remedies

Subject to mandatory provisions of Polish law, on and at any time after the occurrence of an Event of Default which is continuing the Facility Agent may, and shall if so directed by the Majority Lenders, by notice to the Borrower:

- (1) cancel the Total Commitments whereupon it shall immediately be cancelled; and/or
- (2) declare that all or part of the Loans, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be due and payable, whereupon they shall become due and payable; and/or
- (3) exercise and/or instruct the Lenders to exercise any or all of their rights under any of the Security Documents.

Additionally, the Facility Agent may, and shall if so directed by the Majority Lenders, convert the Loan together with all other amounts, declared to be due and payable, into another currency (Zlotys or respectively Euro) at that rate available at the time to the Agent.

12.1.21 Declaration of an Event of Default

An Event of Default may be declared upon occurrence of any of the event or circumstances specified in this Clause 12.1 (*Events of Default*), irrespective of whether the Borrower, any of the Obligor were responsible for any of the event or circumstances which gave rise to such an Event of Default.

12.1.22 Notice of Default

As an alternative to making any declaration referred to in Clause 12.1.20 (*Remedies*), the Facility Agent shall, if so directed by the Majority Lenders give notice of the occurrence of an Event of Default to the Borrower and declare that all or part of the outstanding Loans together with all interest, fees and other amounts payable accrued or outstanding under the Finance Documents shall at all times be due and payable on demand (and the Facility Agent may select the duration of each Interest Period which begins after such declaration) and the continuing availability of the Facility shall be at the discretion of the Majority Lenders.

**SECTION 13**  
**CHANGES TO PARTIES**

13.1 Changes To The Lenders

13.1.1 Assignments and transfers by the Lenders

Subject to this Clause 13 (*Changes to Parties*), a Lender (the “**Existing Lender**”), without the consent of the Borrower, may assign or transfer any of its rights and obligations under this Agreement to another bank or financial institution with its principal office and tax residence in an OECD member state (in each case, the “**New Lender**”).



13.1.2 Limitation of responsibility of Existing Lenders

- (1) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
  - (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
  - (ii) the financial condition of the Obligor and the Group;
  - (iii) the performance and observance by the Obligor of its obligations under the Finance Documents or any other documents; or
  - (iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document,and any representations or warranties implied by provisions of law are excluded.
- (2) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:
  - (i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of the Obligors and the Group in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender in connection with any Finance Document; and
  - (ii) will continue to make its own independent appraisal of the creditworthiness of each Obligor whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.
- (3) Nothing in any Finance Document obliges an Existing Lender to:
  - (i) accept a re-transfer from a New Lender of any of the rights and obligations assigned or transferred under this Clause 13 (*Changes to Parties*); or
  - (ii) support any losses directly or indirectly incurred by the New Lender by reason of the non-performance by the Obligor of its obligations under the Finance Documents or otherwise.

13.1.3 Procedure for assignment or transfer

- (1) An assignment and/or transfer is effected through signing by the disposing Existing Lender and the New Lender of a Transfer Agreement and delivering to the Facility Agent and the Borrower a notice of the same in form of Annex to the Transfer



Agreement. If the consent of the Borrower is required, pursuant to Clause 13.1.1 (*Assignment and transfers by the Lenders*), the Borrower shall, within five (5) Business Days from the delivery of the Transfer Agreement to it, either sign the Transfer Agreement as evidence of the Borrower's consent to the assignment and/or transfer and deliver the signed Transfer Agreement to the Facility Agent immediately thereafter or notify the Facility Agent of the reasons of its refusal to the assignment/transfer.

(2) On the Transfer Date:

- (i) the Existing Lender shall be released from the further obligations under the Finance Documents and its respective rights shall be cancelled (such rights and obligations being referred in this Clause 13.1.3 (*Procedure for assignment or transfer*) as “**discharged rights and obligations**”);
- (ii) the New Lender shall assume obligations and/or acquire rights which differ from such discharged rights and obligations only insofar as such New Lender has assumed and/or acquired the same in place of such Existing Lender;
- (iii) the Facility Agent, the Security Agent, the New Lender and other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been an Original Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer and to that extent the Facility Agent, the Security Agent and the Existing Lender shall each be released from further obligations to each other under this Agreement;
- (iv) the New Lender shall become a party hereto as a “Lender”; and
- (v) The Borrower hereby undertake that it shall execute all such documents and shall take all such actions as the disposing Existing Lender may, in its sole discretion, require the Borrower to execute or, as the case may be, perform so as to effect each transfer of such Existing Lender's rights, benefits and obligations pursuant to this Clause 13.1 (*Changes to the Lenders*). In particular the Borrower shall execute all replacement Security Documents and shall take all actions (including the registration in appropriate registers) necessary or required in order to establish in favour of the New Lender the Security substantially comparable, and equal in ranking, to that conferred by the Security Documents. The Borrower shall be liable for the costs of registering of Security Documents (if any) in favour of the New Lender but not for any other costs connected with transfer of such Existing Lender rights and/or obligations.

13.1.4 Costs resulting from change of Lender or Facility Office

If:

- (1) a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and



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(2) as a result of the assignment, transfer or change, the Borrower would be obliged to pay any Tax or an Increased Cost, then, unless the assignment, transfer or change is made by a Lender to mitigate any circumstances giving rise to the payment of the Tax, Increased Cost or a right to be prepaid and/or cancelled by reason of illegality, the Borrower need only pay that Tax or Increased Cost to the same extent that it would have been obliged to if no assignment, transfer or change had occurred.

#### 13.1.5 Disclosure of information

Any Lender may disclose to any of its Affiliates and any other person:

- (1) to (or through) whom that Lender assigns or transfers (or may potentially assign or transfer) all or any of its rights and obligations under any Finance Document;
- (2) with (or through) whom that Lender enters into (or may potentially enter into) any sub-participation in relation to, or any other transaction under which payments are to be made by reference to, any Finance Document or the Obligor; or
- (3) to whom, and to the extent that, information is required to be disclosed by any applicable provisions of law or regulation,
- (4) any information about the Obligor, the Group and the Finance Documents as that Lender shall consider appropriate.

#### 13.2 Changes To The Obligors

##### 13.2.1 Assignments and transfer by Obligors

The Obligors may not assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

### **SECTION 14** **THE FINANCE PARTIES**

#### 14.1 Role Of The Facility Agent, The Security Agent And The Arranger

##### 14.1.1 Appointment of the Facility Agent and the Security Agent

- (1) Each other Finance Party appoints the Facility Agent to act as its agent under and in connection with the Finance Documents.
- (2) Each other Finance Party authorizes the Facility Agent to exercise the rights, powers, authorities and discretions specifically given to the Facility Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.



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- (3) The provisions of **Schedule 9** (*Security Agent Provisions*) shall bind each Party.

#### 14.1.2 Duties of the Facility Agent

- (1) The Facility Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Facility Agent for that Party by any other Party.
- (2) Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (3) The Facility Agent is not liable to verify whether any Event of Default or Default occurred. The Facility Agent's awareness of any Event of Default or Default cannot be alleged.
- (4) If the Facility Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the Finance Parties.
- (5) If the Facility Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Facility Agent, the Security Agent and any Arranger) under this Agreement it shall promptly notify the other Finance Parties.
- (6) The Facility Agent's duties under the Finance Documents are solely mechanical and administrative in nature.

#### 14.1.3 Role of the Arranger

Except as specifically provided in the Finance Documents, the Arranger has no obligations of any kind to any other Party under or in connection with any Finance Document.

#### 14.1.4 No fiduciary duties

- (1) Nothing in the Finance Documents constitutes the Facility Agent or the Arranger as a trustee or fiduciary of any other person.
- (2) Neither the Facility Agent nor the Arranger shall be bound to account to any Lender or any other person for any sum or the profit element of any sum received by them for its own account.

#### 14.1.5 Business with the Group

The Facility Agent and the Arranger may accept deposits from, lend money to and generally engage in any kind of business with any member of the Group.





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**14.1.6 Rights and discretions of the Facility Agent**

- (1) The Facility Agent may rely on:
  - (i) any representation, notice or document believed by it to be genuine, correct and appropriately authorized; and
  - (ii) any statement made by a director, authorized signatory, employee or other representative of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.
- (2) The Facility Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Finance Parties) that:
  - (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 12.1.1 (Non-payment));
  - (ii) any right, power, authority or discretion vested in any Party or the Majority Lenders has not been exercised; and
  - (iii) any notice or request made by the Borrower (other than Utilization Request) is made on behalf of and with consent and knowledge of all Obligor.
- (3) The Facility Agent may engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts.
- (4) The Facility Agent may act in relation to the Finance Documents through its personnel and agents.
- (5) The Facility Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
- (6) Notwithstanding any other provision of any Finance Document to the contrary, neither the Facility Agent nor the Arranger is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.

**14.1.7 Majority Lenders' instructions**

- (1) Unless a contrary indication appears in a Finance Document, the Facility Agent shall (i) exercise any right, power, authority or discretion vested in it as Facility Agent in accordance with any instructions given to it by the Majority Lenders (or, if so instructed by the Majority Lenders, refrain from exercising any right, power, authority or discretion vested in it as Facility Agent) and (ii) not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Majority Lenders.
- (2) Unless a contrary indication appears in a Finance Document, any instructions given by the Majority Lenders will be binding on all the Finance Parties.



- (3) The Facility Agent may refrain from acting in accordance with the instructions of the Majority Lenders (or, if appropriate, the Lenders) until it has received such security as it may require for any cost, loss or liability (together with any associated VAT) which it may incur in complying with the instructions.
- (4) In the absence of instructions from the Majority Lenders (or, if appropriate, the Lenders), the Facility Agent may act (or refrain from taking action) as it considers to be in the best interest of the Lenders.
- (5) The Facility Agent is not authorized to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

#### 14.1.8 Responsibility for documentation

Neither the Facility Agent nor the Arranger:

- (1) is responsible for the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Facility Agent, the Arranger, any Obligor or any other person given in or in connection with any Finance Document or information memorandum; or
- (2) is responsible for the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with any Finance Document.

#### 14.1.9 Exclusion of liability

- (1) Without limiting paragraph (2) below, the Facility Agent will not be liable for any action taken by it under or in connection with any Finance Document, unless directly caused by its breach of a Finance Document or wilful misconduct.
- (2) No Party (other than the Facility Agent) may take any proceedings against any officer, employee or agent of the Facility Agent in respect of any claim it might have against the Facility Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Facility Agent may rely on this Clause 14.1.9 (*Exclusion of liability*).
- (3) The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognized clearing or settlement system used by the Facility Agent for that purpose.
- (4) Nothing in this Agreement shall oblige the Facility Agent or the Arranger to carry out any "know your customer" or other checks in relation to any person on behalf of any Lender and each Lender confirms to the Facility Agent and the Arranger that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Facility Agent.

#### 14.1.10 Lenders' indemnity to the Facility Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Facility Agent, within three Business Days of demand, against any documented and reasonable cost, loss or liability incurred by the Facility Agent (otherwise than by reason of the Facility Agent's gross negligence or wilful misconduct) in acting as Facility Agent under the Finance Documents (unless the Facility Agent has been reimbursed by any Obligor pursuant to a Finance Document).



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**14.1.11 Resignation of the Facility Agent**

- (1) The Facility Agent may resign by giving notice to the other Finance Parties and the Borrower, in which case the Majority Lenders (in consultation with the Borrower) may appoint a successor Facility Agent.
- (2) If the Majority Lenders have not appointed a successor Facility Agent in accordance with paragraph (1) above within 30 days after notice of resignation was given, the Facility Agent (in consultation with the Borrower) may appoint a successor Facility Agent acting through an office in Poland.
- (3) The retiring Facility Agent shall, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- (4) The Facility Agent's resignation notice shall only take effect upon the appointment of a successor.
- (5) Upon the appointment of a successor, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 14.1.11 (*Resignation of the Facility Agent*). Its successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- (6) After consultation with the Borrower, the Majority Lenders may, by notice to the Facility Agent, require it to resign in accordance with paragraph (1) above. In this event, the Facility Agent shall resign in accordance with paragraph (1) above.

**14.1.12 Confidentiality**

- (1) In acting as agent for the Finance Parties, the Facility Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.



- (2) If information is received by another division or department of the Facility Agent, it may be treated as confidential to that division or department and the Facility Agent shall not be deemed to have notice of it.
- (3) Notwithstanding any other provision of any Finance Document to the contrary, none of the Facility Agent and the Arranger is obliged to disclose to any other person (i) any confidential information or (ii) any other information if the disclosure would or might in its reasonable opinion constitute a breach of any law or a breach of a fiduciary duty.

**14.1.13 Relationship with the Lenders**

- (1) The Facility Agent may treat each Lender as a Lender entitled to payments under this Agreement and acting through its Facility Office unless it has received not less than five Business Days prior notice from that Lender to the contrary in accordance with the terms of this Agreement.
- (2) Each Lender shall supply the Facility Agent with any information required by the Agent in order to calculate the Mandatory Cost.

**14.1.14 Credit appraisal by the Lenders**

Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Facility Agent and the Arranger that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including:

- (1) the financial condition, status and nature of any relevant member of the Group;
- (2) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- (3) whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (4) the adequacy, accuracy and/or completeness of any other information provided by the Facility Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

**14.1.5 Deduction from amounts payable by the Facility Agent**

If any Party owes an amount to the Facility Agent under the Finance Documents the Facility



Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Facility Agent would otherwise be obliged to make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

#### 14.2 Conduct Of Business By The Finance Parties

No provision of any Finance Document will:

- (1) interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit;
- (2) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (3) oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

#### 14.3 Sharing Among The Finance Parties

##### 14.3.1 Notification

If any Lender intends to commence any court or arbitration proceedings it shall give prior notice to the Facility Agent, the Security Agent and each other Lenders.

##### 14.3.2 Payments to Finance Parties

If a Finance Party (a “**Recovering Finance Party**”) receives or recovers (whether by payment, the exercise of a right of set-off or contribution of accounts or otherwise) any amount from any Obligor other than in accordance with Clause 15.1 (*Payment mechanics*) and applies that amount to a payment due under the Finance Documents then:

- (1) the Recovering Finance Party shall, within three Business Days, notify details of the receipt or recovery to the Facility Agent;
- (2) the Facility Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received or made by the Facility Agent and distributed in accordance with Clause 15.1 (*Payment mechanics*), without taking account of any Tax which would be imposed on the Facility Agent in relation to the receipt, recovery or distribution; and
- (3) the Recovering Finance Party shall, within three Business Days of demand by the Facility Agent, pay to the Facility Agent an amount (the “**Sharing Payment**”) equal to such receipt or recovery less any amount which the Facility Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 15.1.5 (*Partial payments*).



#### 14.3.3 Redistribution of payments

The Facility Agent shall treat the Sharing Payment as if it had been paid by the Borrower and distribute it between the Finance Parties (other than the Recovering Finance Party) in accordance with Clause 15.1.5 (*Partial payments*).

#### 14.3.4 Recovering Finance Party's rights

- (1) On a distribution by the Facility Agent under Clause 14.3.3 (*Redistribution of payments*), the Recovering Finance Party will be subrogated to the rights of the Finance Parties which have shared in the redistribution.
- (2) If and to the extent that the Recovering Finance Party is not able to rely on its rights under paragraph (1) above, each Obligor shall be liable to the Recovering Finance Party for a debt equal to the Sharing Payment which is immediately due and payable.

#### 14.3.5 Reversal of redistribution

If any part of the Sharing Payment received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

- (1) each Finance Party which has received a share of the relevant Sharing Payment pursuant to Clause 14.3.3 (*Redistribution of payments*) shall, upon request of the Facility Agent, pay to the Facility Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Sharing Payment (together with any amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment which that Recovering Finance Party is required to pay); and
- (2) that Recovering Finance Party's rights of subrogation in respect of any reimbursement shall be cancelled and each Obligor will be liable to the reimbursing Finance Party for the amount so reimbursed.

#### 14.3.6 Exceptions

This Clause 14.3 (*Sharing among Finance Parties*) shall not:

- (1) apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause 14.3 (*Sharing among Finance Parties*), have a valid and enforceable claim against the relevant Obligor;
- (2) oblige a Recovering Finance Party to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of taking legal or arbitration proceedings, if:
  - (i) it notified that other Finance Party of the legal or arbitration proceedings; and
  - (ii) that other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable after having received notice and did not take separate legal or arbitration proceedings.



**SECTION 15**  
**ADMINISTRATION**

**15.1** Payment Mechanics

**15.1.1** Payments to the Facility Agent

- (1) On each date on which an Obligor or a Lender is required to make a payment under a Finance Document, that Obligor or Lender shall make the same available to the Facility Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Facility Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (2) Payment shall be made to such account with such bank as the Facility Agent specifies.

**15.1.2** Distributions by the Facility Agent

Each payment received by the Facility Agent under the Finance Documents for another Party shall, subject to Clause 15.1.3 (*Distributions to the Obligor*) and Clause 15.1.4 (*Clawback*) be made available by the Facility Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement (in the case of a Lender, for the account of its Facility Office), to such account as that Party may notify to the Agent by not less than five Business Days notice.

**15.1.3** Distributions to an Obligor

The Facility Agent may (with the consent of the Obligor or in accordance with Clause 15.2 (Set-off)) apply any amount received by it for that Obligor in or towards payment (on the date and in the currency and funds of receipt) of any amount due from that Obligor under the Finance Documents or in or towards purchase of any amount of any currency to be so applied.

**15.1.4** Clawback

- (1) Where a sum is to be paid to the Facility Agent under the Finance Documents for another Party, the Facility Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.
- (2) If the Facility Agent pays an amount to another Party and it proves to be the case that the Facility Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Facility Agent shall on demand refund the same to the Facility Agent together with interest on that amount from the date of payment to the date of receipt by the Facility Agent, calculated by the Facility Agent to reflect its cost of funds.





#### 15.1.5 Partial payments

- (1) If the Facility Agent receives a payment that is insufficient to discharge all the amounts then due and payable by an Obligor under the Finance Documents, the Facility Agent shall apply that payment towards the obligations of that Obligor under the Finance Documents in the following order:
  - (i) first, in or towards payment pro rata of any unpaid fees, costs and expenses of the Facility Agent, the Security Agent and the Arranger under the Finance Documents;
  - (ii) secondly, in or towards payment pro rata of any accrued interest, fee or commission due but unpaid under this Agreement;
  - (iii) thirdly, in or towards payment pro rata of any principal due but unpaid under this Agreement; and
  - (iv) fourthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- (2) The Facility Agent shall, if so directed by the Majority Lenders, vary the order set out in paragraphs (1) items (ii) to (iv) above.
- (3) Paragraphs (1) and (2) above will override any appropriation made by an Obligor.

#### 15.1.6 No set-off by Obligors

All payments to be made by an Obligor under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

#### 15.1.7 Business Days

- (1) Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (2) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

#### 15.1.8 Currency of account

- (1) Subject to paragraphs (2) to (3) below, Polish Zloty is the currency of account and payment for any sum due from an Obligor under any Finance Document.
- (2) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.



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- (3) Any amount expressed to be payable in a currency other than Polish Zloty shall be paid in that other currency.

#### 15.1.9 Change of currency

- (1) Unless otherwise prohibited by provisions of law, if more than one currency or currency unit are at the same time recognized by the central bank of any country as the lawful currency of that country, then:
- (i) any reference in the Finance Documents to, and any obligations arising under the Finance Documents in, the currency of that country shall be translated into, or paid in, the currency or currency unit of that country designated by the Facility Agent (after consultation with the Borrower); and
  - (ii) any translation from one currency or currency unit to another shall be at the official rate of exchange recognized by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Facility Agent (acting reasonably).
- (2) If a change in any currency of a country occurs, this Agreement will, to the extent the Facility Agent (acting reasonably and after consultation with the Borrower) specifies to be necessary, be amended to comply with any generally accepted conventions and market practice in the Relevant Interbank Market and otherwise to reflect the change in currency.

#### 15.2 Set-Off

A Finance Party may set off any matured obligation due from an Obligor under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off. No Security interest is created by this Clause 15.2 (*Set-off*).

#### 15.3 Notices

##### 15.3.1 Communications in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

##### 15.3.2 Addresses

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

- (1) in the case of the Obligors, the Original Lenders, the Facility Agent and the Security Agent and the Arranger that identified in **Schedule 11** (*Addresses*); and



- (2) in the case of each other Finance Party, that notified in writing to the Facility Agent on or prior to the date on which it becomes a Party,

or any substitute address, fax number or department or officer as the Party may notify to the Facility Agent (or the Facility Agent may notify to the other Parties, if a change is made by the Facility Agent) by not less than five Business Days notice.

### 15.3.3 Delivery

- (1) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:
- (i) if by way of fax, when received in legible form; or
  - (ii) if by way of letter, when it has been left at the relevant address,
- and, if a particular department or officer is specified as part of its address details provided under Clause 15.3.2 (*Addresses*), if addressed to that department or officer.
- (2) Any communication or document in connection with an Obligor's information undertakings may be made or delivered by that Obligor to the Facility Agent per mail to the address specified under Clause 15.3.2 (*Addresses*) with a request for a read receipt - however, the Facility Agent may demand making or delivery of the same by fax or letter for its effectiveness.
- (3) All notices from or to an Obligor shall be sent through the Facility Agent.
- (4) Any communication or document made or delivered to the Borrower in accordance with this Clause will be deemed to have been made or delivered to each of the members of the Group.
- (5) All notices made by or delivered from the Borrower to the Facility Agent will be deemed to have been duly undersigned by the Borrower if signed by a person listed on the chart of specimen signatures referred to in item 1.3 of **Schedule 2** (*Conditions precedent*), or any other person, whose specimen signature confirmed by a statutory representative of the Borrower has been delivered by the Borrower to the Agent.

### 15.3.4 Notification of address and fax number

Promptly upon receipt of notification of an address and fax number or change of address or fax number pursuant to Clause 15.3.2 (*Addresses*) or changing its own address or fax number, the Facility Agent shall notify the other Parties.

### 15.3.5 Language

- (1) Any notice given under or in connection with any Finance Document must be in English or in Polish, at the discretion of the Party providing such notice or report.



- (2) The English language version of any Finance Document shall prevail over the Polish language version (if any) of such document, except for the Registered Pledges over the Shares in which case the Polish language version shall prevail.

15.3.5 Working day convention

Any communication received on a non-Business Day or after 4:00 p.m. in the place of receipt will only be deemed to be given on the next Business Day in that place (subject to its having been delivered in accordance with the terms of this Agreement).

15.4 Calculations And Certificates

15.4.1 Accounts

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Finance Party are *prima facie* evidence of the matters to which they relate.

15.4.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate, amount or other matter under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

15.4.3 Day count convention

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days or, in any case where Market Conventions differ in the Relevant Interbank Market, in accordance with those Market Conventions.

15.5 Partial Invalidity

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

15.6 Remedies And Waivers

No failure to exercise, nor any delay whatsoever in exercising, on the part of any Finance Party, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law



## 15.7 Amendments And Waivers

### 15.7.1 Majority Lender decisions

Except as provided in Clause 15.7.2 (*Unanimous Consent*), any term of the Finance Documents may be amended or waived only with the consent of the Majority Lenders and the Obligors and any such amendment or waiver will be binding on all Parties.

### 15.7.2 Unanimous consent

Unless all the Lenders give their consent, no waiver or amendment shall be made that has the effect of changing or which relates to:

- (i) the definition of “Majority Lenders” in Clause 1.1 (*Definitions*);
- (ii) an extension to the date by which any mandatory prepayment or scheduled payment is required to be paid under the Finance Documents;
- (iii) a reduction in the Margin or a reduction in the amount of any mandatory prepayment or scheduled payment of principal, interest, fees or other amount payable to a Lender under the Finance Documents;
- (iv) an increase in or an extension of any Commitment;
- (v) any provision in a Finance Document which requires the consent of all the Lenders;
- (vi) the conditions set out in Clause 4 (*Conditions of Utilization*) or Clause 5 (*Utilization*) if, at any time, a Default which relates to Clause 9.9.26 (*Repetition*) or Clause 21.1 (Negative pledge) is continuing;
- (vii) any provision of Clause 2.2 (*Finance Parties’ rights and obligations*), Clause 7.3.2 (*Market Disruption*), Clause 13.1 (*Changes to the Lenders*), Clause 13.2 (*Changes to the Obligors*), Clause 14.1 (*Role of the Facility Agent, the Security Agent and the Arranger*), **Schedule 2** (*Conditions Precedent*) or this Clause 15.7.2 (*Unanimous consent*);

Notwithstanding any other provision in this Agreement, any amendment or waiver which relates to the rights or obligations of the Facility Agent, the Security Agent or the Arranger under any Finance Document may not be effected without the consent of such person at such time.

### 15.7.4 Parts

This Agreement has been executed in four (4) original copies executed in the English language, one copy of each language version for each Party.



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## 15.7.5 Confidentiality

- (1) Each Finance Party shall hold all information contained in the Finance Documents, as well as all information furnished thereunder which is in writing (or promptly confirmed in writing) and marked “*confidential*” on the cover, in accordance with that Finance Party’s customary procedures for handling confidential information of such nature and in accordance with sound banking practices, provided that this requirement shall not apply to any information which:
  - (i) is publicly available (other than as a result of a breach of this Clause 15.7.5 (*Confidentiality*)); or
  - (ii) the relevant Finance Party already possesses and is not covered by an existing confidentiality undertaking of such Finance Party; or
  - (iii) the relevant Finance Party obtains from a source which to its knowledge has not entered into a confidentiality agreement with the Borrower concerning such information; or
  - (iv) it is necessary to disclose for the purpose of meeting any legal (but not merely contractual) or regulatory requirement; or
  - (v) (after an Event of Default occurred and is continuing), the relevant Finance Party deems appropriate to disclose in connection with any dispute involving the Obligor or any other party to a Finance Document, for the purpose of preserving or enforcing any of the Finance Parties’ rights under any Finance Document or collecting any amount owing to the Finance Parties or in connection with any proposed participation or any other proposed sale, transfer, assignment, novation or other disposal.
- (2) Each Finance Party may disclose the confidential information referred to in paragraph (1) to its professional advisers on a confidential basis.
- (3) The provisions of this Clause 15.7.5 (*Confidentiality*) shall supersede any undertakings with respect to confidentiality previously given by any Finance Party in favour of the Borrower, any other Obligor or any Shareholder.



**SECTION 16**  
**GOVERNING LAW AND ENFORCEMENT**

16.1 Governing Law

This Agreement, including Clause 16.2 (*Enforcement*) is governed by and shall be construed in accordance with Polish law.

16.2 Enforcement

16.2.1 Jurisdiction

- (1) The courts of Poland competent for the registered office of the Facility Agent shall have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement and any other Finance Document, unless otherwise provided in such Finance Document, (including a dispute regarding the existence, validity or termination of any Finance Document) (the “**Dispute**”).
- (2) To the extent allowed by provisions of law, each Obligor irrevocably waives any objection it may now or hereafter have on any grounds whatsoever to the laying of venue of any legal proceeding, and any claim it may now or hereafter have that any such legal proceeding has been brought in an inappropriate or inconvenient forum.

16.2.2 Waiver of Immunity

To the extent that an Obligor or any of its assets has or after the date of this Agreement may acquire any right to immunity from set-off, legal proceedings, attachment prior to judgment, other attachment or execution of judgment on the grounds of sovereignty or otherwise, that Obligor hereby irrevocably waives such rights to immunity in respect of its obligations arising under or relating to the Finance Documents.

This Agreement has been entered into on the date stated at the beginning of this Agreement.





SCHEDULE 1  
THE ORIGINAL LENDERS.

The Original Lenders

<u>Name of Original Lender</u>	<u>Commitment</u>
Fortis Bank Polska S.A.	PLN 80,000,000
Fortis Bank S.A./N.V. AUSTRIAN BRANCH	PLN 150,000,000
Bank Polska Kasa Opieki S.A.	PLN 70,000,000
<b>Total Commitment</b>	<b>PLN 300,000,000</b>



## **SCHEDULE 2**

### **CONDITIONS PRECEDENT**

#### **Conditions Precedent to Initial Utilization**

##### **The Obligors Documents**

- 1.1 A copy of the current excerpt from the entrepreneur register of the National Court Register or equivalent corporate registry of the Borrower and each of the issuers of Promissory Notes.
- 1.2 A certified copy of the Articles of Association of the Borrower and each of the issuers of Promissory Notes together with all amendments.
- 1.3 Chart of specimen signatures of persons authorized to represent the Borrower in front of the Lenders in connection with the Financial Documents.
- 1.4 A certified copy of the Certificate of Incorporation and the Bylaws of CEDC
- 1.5 A certified copy of the Management Board resolutions (and of the Supervisory Board and/or the Shareholders Meeting, where required) of each Obligor and issuer of Promissory Note approving the terms of, and the transactions contemplated by, the Finance Documents and (in relation to the Management Board resolutions only), authorizing representative(s) of the respective Obligor or issuer of Promissory Note to execute the Finance Documents to which it is a party.
- 1.6 In respect of the Borrower, an excerpt of the book of shares evidencing the current shareholder structure of the Borrower, as well as a current full excerpt from Entrepreneurs Registry;

##### **Legal opinions**

- 1.7 A legal opinion of Radzikowski, Szubielska i Wspólnicy. Sp.K., legal adviser to the Original Lenders substantially in the form distributed to the Original Lenders prior to the date of this Agreement covering the validity and enforceability of the Obligors' obligations under the Finance Documents with respect to the Polish Law,
- 1.8 A legal opinion of a legal counsel for CEDC confirming that the execution of the CEDC Corporate Guarantee was duly authorized and such Finance Document was duly executed by CEDC and
- 1.9 A legal opinion of a legal adviser to the Original Lenders substantially in the form distributed to the Original Lenders prior to the date of this Agreement covering:
  - (i) the validity and enforceability of the Obligors' obligations under the Finance Documents with respect to the Hungarian Law, and
  - (ii) due examination of the Pledge over shares of Bols Hungary.

**Finance Documents**

- (a) An original copy of this Agreement executed by all intended Parties to it.
- (b) The Original Security Documents duly executed by all intended Parties thereto in form and substance satisfactory to the Security Agent and being in full force and effect,
- (c) Additionally Requirements with Respect to the Original Security Documents;
  - (i) An evidence that an application for the registration of Registered Pledge over the Shares has been lodged to the relevant court and all fees related thereto have been duly paid by the Borrower;

**Existing Facilities, the Notes and the Notes Guarantees**

- (a) If required, a consent of each secured party to the Existing Facilities or the Indenture or the Notes Guarantees (represented by its security agent to the extent permitted) to the execution of this Agreement and the Original Security Documents, and
- (b) Notification of the Borrower to the lenders under the Refinanced Facilities of the Borrower's prepayment of those Existing Facilities, in accordance with their terms.

**Fees and expenses**

- (a) Evidence that the fees, costs and expenses then due from the Borrower under Clauses 7.4 (Fees) and 8.5 (Costs and expenses) have been paid by or will be paid on the due dates or that other arrangements satisfactory to the Facility Agent have been made.

**Other documents**

- 1.10 A certificate of the Borrower confirming (to the best of the knowledge, information and belief of the authorized signatory signing such certificate):
  - (i) the representations in Clause 9 (*Representations*); and
  - (ii) that no litigation exists or is threatened against any Obligor which, if successful, could reasonably likely to have a Material Adverse Effect.
- 1.11 A copy of any other Authorization or other document, opinion or assurance which the Agent acting reasonably considers to be material (if it has notified in writing, or via facsimile the Borrower accordingly) in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.
- 1.12 The Original Financial Statements.



**SCHEDULE 3  
FORM OF UTILIZATION REQUEST**

From: **CAREY AGRI INTERNATIONAL - POLAND SP. Z O.O.**

To: **FORTIS BANK POLSKA S.A.** as the Facility Agent

Dated: [ \*\*\* ] 2007

Dear Sirs,

Facility Agreement for up to PLN 300.000.000 dated [\*\*\*] 2007 executed between Fortis Bank Polska S.A., Fortis Bank S.A./NV Austrian Branch and Bank Polska Kasa Opieki S.A. as the Original Lenders, Fortis Bank Polska S.A. as the Arranger, the Facility Agent and the Security Agent and Carey Agri International - Polska Sp. z o.o. as the Borrower (the "**Agreement**", which expression shall include any amendments in force from time to time).

1. We refer to the Agreement. This is a Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.

2. We wish to borrow a Loan on the following terms:

Proposed Utilisation Date: [\*\*\*] (or, if that is not a Business Day, the next Business Day).

Facility to be used: [\*\*\*Refinancing Tranche/Utilisations other than the Refinancing Tranche\*\*\*].

Currency: PLN.

Amount: [ \*\*\* ].

3. We confirm that each condition specified in Clauses 4 (*Conditions for Utilisations*) with respect to Refinancing Tranche/Utilizations other than the Refinancing Tranche is satisfied on the date of this Utilisation Request.

4. The payment instructions for the proceeds of this Loan are:

Payment to: [ \*\*\* ].

In ref to: [ \*\*\* ].

Account number: [ \*\*\* ].

Bank: [ \*\*\* ].

Bank Address: [ \*\*\* ].

Account Name: [ \*\*\* ].

5. This Utilisation Request is irrevocable.

Yours faithfully



**SCHEDULE 4**  
**FORM OF TRANSFER AGREEMENT**

This transfer agreement is dated [ \*\*\* ] and made between:

[ \*\*\* ], with its seat in [ \*\*\* ], entered into [ \*\*\* ] under the number [ \*\*\* ], represented by [ \*\*\* ] (the “Existing Lender”), and  
[ \*\*\* ], with its seat in [ \*\*\* ], entered into [ \*\*\* ] under the number [ \*\*\* ], represented by [ \*\*\* ] (the “New Lender”).

**IT IS AGREED as follows:**

**1. Definitions and Interpretations**

In this Agreement terms defined in the Facilities Agreement shall, unless the context otherwise requires, have the same meaning and in addition:

“**Facility Agreement**” means the Facility Agreement for up to PLN 300.000.000 dated [\*\*\*] 2007 executed between Fortis Bank Polska S.A., Fortis Bank S.A./ NV Austrian Branch and Bank Polska Kasa Opieki S.A. as the Original Lenders, Fortis Bank Polska S.A. as the Arranger, the Facility Agent and the Security Agent and Carey Agri International - Polska Sp. z o.o. as the Borrower (the “Agreement”, which expression shall include any amendments in force from time to time).;

“**Transfer Date**” means [ \*\*\* ];

“**Transferred Loan[s]**” means Loans in amounts specified in the Schedule to this Agreement;

“**Transferred Commitment[s]**” means Commitments in amounts specified in the Schedule to this Agreement.

**2. Assignment [and Transfer].**

With effect on and from the [Transfer Date]/[the date of the receipt of this Agreement executed by the Borrower by the Facility Agent], the Existing Lender hereby assigns [and transfers] to the New Lender its rights to the Transferred Loan[s] [and the Transferred Commitment[s]] under the Facilities Agreement [together with its obligations in relation to the Transferred Commitment [s]] and all rights and benefits under the Finance Documents relating thereto. The New Lender accepts this assignment [and transfer].

**3. Notice Of Transfer**

The New Lender shall, promptly after the execution of this Agreement, [send to the Borrower and the Facility Agent a notice of transfer in the form of the Annex to this Agreement]/[send the same to the Borrower for its execution and further delivery to the Facility Agent].



**4. Transfer of Security**

- 4.1 The Existing Lender and the New Lender agree that together with the Transferred Loan[s] [and the Transferred Commitment[s]] shall be transferred to the New Lender all Security appurtenant to the Transferred Loan[s] [and the Transferred Commitment[s]]. If necessary under the Polish law, the Existing Lender and the New Lender shall, immediately after execution of this Transfer Agreement, execute all documents and take all actions that are necessary in order to establish in favour of the New Lender the Security substantially compared, and equal in ranking, to the Security established under the Security Documents in favour of the Existing Lender.
- 4.2 It is understood that any risk relating to the Security, the establishment of which has not yet become legally binding, shall be borne solely by the New Lender.

**5. [Consent of the Borrower**

The Borrower consents to the transfer by the Existing Lender of the Transferred Loan[s] [and Transferred Commitment[s]] and agrees to execute all other documents and perform all other actions that the Facility Agent, the Existing Lender or the New Lender, in their sole discretion, require the Borrower to execute or, as the case may be, to perform so as to effect this transfer.]

**6. Applicable Law**

The Transfer Agreement shall be governed by and construed in accordance with the laws of the Republic of Poland.

**IN WITNESS** whereof the parties hereto have entered into this Transfer Agreement on the date stated at the head of this Transfer Agreement.

**EXISTING LENDER**

\_\_\_\_\_

[\*\*]

By: \_\_\_\_\_

**NEW LENDER**

\_\_\_\_\_

[\*\*]

By: \_\_\_\_\_

**[CAREY AGRI INTERNATIONAL - POLSKA  
SP. Z O.O.**

\_\_\_\_\_

[\*\*]



**Schedule to Transfer Agreement**  
**Details of Participation to be transferred**

Existing Lender’s Commitment	Portion of Commitment Transferred:
[ *** ]	[ *** ]
Existing Lender’s Share of Loan under	Portion of Loan Transferred:
(amount and Interest Period):	
[ *** ] (Interest Period [ *** ])	[ *** ]

**Administrative Details of New Lender:**

Name:  
Facility Office:  
Address for service of notices (if different):  
Account for payments:  
Telephone:  
Facsimile:  
Attention:



**Annex**  
**Notice of Transfer to Facility Agent and Borrower**

To: **Fortis Bank Polska S.A., as Facility Agent**  
**Carey Agri International - Polska Sp. z o.o. as Borrower**

[ \*\*\* ] the (“**New Lender**”) hereby gives notice that pursuant to the terms of a transfer agreement dated [ \*\*\* ], (“**Transfer Agreement**”) a copy of which is enclosed, made between [ \*\*\* ] (the “**Existing Lender**”) and the New Lender, the Existing Lender has, with effect from [\_\_\_\_], (“**Transfer Date**”) effected the transfer stated in the Transfer Agreement.

Dated: [\_\_\_\_\_]

By: [\_\_\_\_\_]





**SCHEDULE 5**  
**EXISTING FACILITIES AND EXISTING SECURITIES**

**Part I**  
**EXISTING FACILITIES**

**LIST OF FACILITY AGREEMENTS EXISTING ON DECEMBER 21, 2007**

<u>Agreement</u>	<u>Lender</u>	<u>Outstanding Amount as of 21.12.2007</u>		<u>Repayment date</u>
Credit facilities agreement dated 31.03.2006 for PLN 80,500,000	Fortis Bank Polska S.A.	PLN 60,414,225.93	30.03.2016	NO
Credit facilities agreement dated 12.10.2006 for PLN 300,000,000	Fortis Bank Austria N.V.	PLN 300,000,000	08.01.2008	YES
Framework credit facility agreement (overdrafts) dated 29.03.2007 for PLN 118,500,000	Bank Pekao S.A.	54,037,414.58	30/03/2008	NO
Credit Facility dated 31.08.2007 for PLN 88,000,000	BRE Bank S.A.	PLN 0.00	28.08.2008	NO



**Part II**  
**EXISTING SECURITIES**

<u>Company</u>	<u>Type of security</u>	<u>Subject of security</u>
<b>Credit Facility Agreement with Fortis Bank Polska S.A.</b>		
Credit facilities agreement dated 31.03.2006 for PLN 80,500,000		
Co-borrowers include:		
MTC Sp. z o.o.		
MIRO Sp. z o.o.,		
„DELIKATES” Sp. z o.o., MULTI- EX S.A.		
“PANTA-HURT” Sp. z o.o.		
“POLSKIE HURTOWNIE ALKOHOLI” Sp. z o.o.		
ASTOR Sp. z o.o.		
“IMPERIAL” Sp. z o.o.		
“POLNIS-DYSTRYBUCJA” Sp. z o.o.	registered pledge	registered pledge over inventory of MTC Sp. z o.o., Miro Sp. z o.o., Delikates Sp. z o.o., Multi-Ex S. A., Panta-Hurt Sp. z o.o.
“DAKO-GALANT” Przedsiębiorstwo Handlowo Produkcyjne Sp. z o.o.		
“ONUFRY” S.A.,		
“FINE WINE & SPIRITS (FWS) Sp. z o.o.		
PWW Sp. z o.o.		
“SAOL DYSTRYBUCJA” Sp. z o.o.		
PRZEDSIĘBIÓSTWO DYSTRYBUCJI ALKOHOLI “AGIS” Sp. z o.o.		
“DAMIANEX” S.A.		
“KROKUS” Sp. z o.o.		
“BOLS” Sp. z . o.o.,		



**Credit Facility Agreement with Fortis Bank Austria N.V.**

Promissory Notes of the Borrower, MTC  
Sp. z o.o.  
MIRO Sp. z o.o.,  
“DELIKATES” Sp. z o.o., MULTI-EX  
S.A.  
“PANTA-HURT” Sp. z o.o. “POLSKIE  
HURTOWNIE ALKOHOLI” Sp. z o.o.  
ASTOR Sp. z o.o.  
IMPERIAL” Sp. z o.o.  
“POLNIS-DYSTRYBUCJA” Sp. z o.o.  
“DAKO-GALANT” Przedsiębiorstwo  
Handlowo Produkcyjne Sp. z o.o.  
“ONUFRY” S.A.,  
“FINE WINE & SPIRITS (FWS) Sp. z  
o.o.  
PWW Sp. z o.o.  
“SAOL DYSTRYBUCJA” Sp. z o.o.  
PRZEDSIĘBIOSTWO DYSTRYBUCJI  
ALKOHOLI “AGIS” Sp. z o.o.  
“DAMIANEX” S.A.  
“KROKUS” Sp. z o.o.  
“BOLS” Sp. z . o.o.,

The Borrower,

N/A

**Credit Facility Agreement with Bank Pekao S.A.**



Framework credit facility agreement (overdrafts) dated 29.03.2007 for PLN 118,500,000	Registered pledge; Suretiship; Power of Attorney to current bank account; Assignment of rights; Sponsor Declaration issued by Central European Distribution Corporation	registered pledge over inventory;
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**Credit Facility Agreement with BRE Bank S.A.**

Credit Facility dated 31.08.2007 for PLN 88,000,000	Prommissory notes of the Borrower, Bols Sp. z o.o., PWW Sp. zo.o, MTC Sp. z o.o., PHA Sp. z o.o, Agis Sp. z o.o., Onufry S.A.	N/A
--	--	-----



SCHEDULE 6  
FORM OF SECURITY



**SCHEDULE 7**  
**FORM OF COMPLIANCE CERTIFICATE**

From: Carey Agri International - Polska Sp. z o.o.

To: Fortis Bank Polska S.A. as the Facility Agent

Dated: [\_\_\_\_\_]

Dear Sirs,

Facility Agreement for up to PLN 300.000.000 dated [\*\*\*] 2007 executed between Fortis Bank Polska S.A., Fortis Bank S.A./NV Austrian Branch and Bank Polska Kasa Opieki S.A. as the Original Lenders, Fortis Bank Polska S.A. as the Arranger, the Facility Agent and the Security Agent and Carey Agri International - Polska Sp. z o.o. as the Borrower (the “**Agreement**”, which expression shall include any amendments in force from time to time).

We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [ \*\*\* relevant testing date \*\*\* ] (the “**Testing Date**”) for the period ending [ \*\*\* ]:
  - (a) the Consolidated Coverage Ratio is [\_\_\_\_\_]; and
  - (b) the Net Debt Ratio is [\_\_\_\_\_].
3. We confirm that as of the Testing Date no Default nor Event of Default exists.

Yours faithfully

\_\_\_\_\_  
authorised signatory for Carey Agri International -  
Polska Sp. z o.o.



**SCHEDULE 8  
CEDC CAPITAL GROUP**

<u>Company</u>	<u>Equity</u>	<u>Carey Agri</u>	<u>CEDC</u>	<u>PWW</u>	<u>Bols sp. z o.o.</u>	<u>Botapol Holding</u>	<u>MTC</u>	<u>CEDC Polska</u>
<b>ASTOR</b>	<b>100 %</b>	<b>90 %</b>	<b>10,00 %</b>					
	60 000	54 000	6 000					
	120	108	12					
<b>PHA</b>	<b>100 %</b>	<b>98,20 %</b>	<b>1,80 %</b>					
	2 150 000	2 111 000	39 000					
	4 300	4 222	78					
<b>MTC</b>	<b>100 %</b>	<b>99,00 %</b>	<b>1,00 %</b>					
	10 646 000	10 539 500	106 500					
<b>PWW</b>	<b>100 %</b>	<b>99,999 %</b>						<b>0,001 %</b>
	6 000 000	5 999 500						500
	12 000	11 999						1
<b>CAREY</b>	<b>100 %</b>		<b>100,00 %</b>					
	473 610 000		473 610 000					
	947 220		947 220					
<b>AGIS</b>	<b>100 %</b>	<b>60 %</b>	<b>40 %</b>					
	2 500 000	1 500 000	1 000 000					
	25 000	15 000	10 000					



<b>DAMIANEX</b>	100%	60%	40%
	16 936 200	10 161 720	6 774 480
	84 681	50 809	33 872
<b>ONUFRY</b>	100%	74%	26%
	11 422 000	8 426 686	2 995 314
	1 109 980	818 898	291 082
<b>FW&amp;S</b>	100%	1%	99%
	1 350 000	500	1 349 500
	2 700	1	<b>2 699</b>
<b>DAKO -GALANT</b>	100%	87%	13%
	2 570 500	2 241 000	329 500
	5 141	4 482	659
<b>Panta-Hurt</b>	100%	39%	61%
	1 120 000	432 000	688 000
	1 120	432	688
<b>Multi – Ex</b>	100%	99,97%	0,03%
	7 000 000	6 997 960	2 040
	700 000	699 796	204
<b>Miro Sp z o.o.</b>	100%	99,42%	0,58%
	2 600 000	2 585 000	15 000
	5 200	5 170	30
<b>Saol Dystrybucja Sp. z o.o.</b>	100%	80,00%	20,00%
	12 500 000	12 450 000	50 000
	25 000	24 900	100





<b>Polnis Dystrybucja Sp. z o.o.</b>	100%	80,00%	20,00%
	200 000	160 000	40 000
	400	320	80
<b>Delikates Sp. z o.o.</b>	100%	80,00%	20,00%
	530 000	423 500	106 500
	1 060	847	213
<b>Imperial Sp. z o.o.</b>	100%	80,00%	20,00%
	60 000	47 500	12 500
	120	95	25
<b>Krokus Sp. z o.o.</b>	100%	100%	
	2 427 000	2 427 000	
	4 854	4854	
<b>Bols sp. z o.o.</b>	100%		100%
	47 065 000		47 065 000
	47 065		47 065
<b>Polmos Bialystok S.A.</b>	99,92%	99,92%	
	119 000 000		
	11 900 000		
<b>Bols Hungary KFT</b>	100%		100%
	91 240 000 HUF		91 240 00 0 HUF
	1		1 udział



PHS	100%	80%	20,00%
	457 000	366 000	91 000
	914	732	182
CEDC Polska Sp. z o.o.	100%	100%	
	50 500	50 500	
	101	101	

SAMPLE

**SCHEDULE 9**  
**SECURITY AGENT PROVISIONS**

**Expressions:**

All expressions used in this Schedule have meanings given to them in Clause 1 (Definitions and interpretation).

**Appointment and Authorisations: Each Finance Party:**

- (a) confirms its approval of each Security Document; and
- (b) authorises and directs the Security Agent (by itself or by any person(s) as it may nominate) to execute and enforce the Security Documents as pledge administrator, proxy or in any other role (and whether or not expressly in that Finance Party's name) on its behalf, subject always to the terms of the Finance Documents.
- (c) Each Lender appoints the Security Agent to act as the pledge administrator in relation to the Registered Pledge over the Shares.

**Duties:**

- (a) Except where a Finance Document specifically provides otherwise, the Security Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (b) The Security Agent has only those duties which are expressly specified in the Finance Documents.
- (c) The Security Agent's duties under the Finance Documents are solely mechanical and administrative in nature.

**Relationship:**

- (a) The relationship between the Security Agent and each other Finance Party is that of principal and agent. The benefits of the Security Documents are held by the Security Agent for the benefit of the Finance Parties.
- (b) The Security Agent shall not be liable to any Party for any breach by any other Party of any Finance Document.



- (c) The Security Agent shall not be bound to account to any Party or any other person for any sum or the profit element of any sum received by it for its own account.

**Business with the Group:**

If it is also a Lender, the Security Agent has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not the Security Agent.

**Rights and discretions:**

- (a) The Security Agent may rely on:
- (i) any representation, notice or document believed by it to be genuine, correct and appropriately authorised; and
  - (ii) any statement made by a director, authorised signatory or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.
- (b) The Security Agent may assume (unless it has received notice to the contrary in its capacity as agent for the other Finance Parties) that:
- (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 12.1.1 (*Non-payment*)); and
  - (ii) any right, power, authority or discretion vested in the Majority Lenders or any other person has not been exercised.
- (c) The Security Agent may engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts, provided that each of them will be obliged to keep confidential any information obtained.
- (d) The Security Agent may act in relation to the Finance Documents through its personnel and agents provided that each of them will be obliged to keep confidential any information obtained.
- (e) The Security Agent may disclose to any other Party any information it reasonably believes it has received as agent under the Finance Documents.



- (f) Notwithstanding any other provision of any Finance Document to the contrary, the Security Agent is not obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or a breach of a fiduciary duty or duty of confidentiality.

**Responsibility:**

The Security Agent is not responsible for:

- (a) the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by any person given in or in connection with any Finance Document;
- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with any Finance Document; or
- (c) for any failure in perfecting or protecting the Security created by any Security Document including any failure to:
  - (i) take any necessary registration or recordings or filings of or otherwise protect the relevant Security under any provisions of law in any jurisdiction;
  - (ii) give notice to any person of the execution of any Security Document; or
  - (iii) to obtain any authorisation for the creation of any Security,

unless directly caused by its breach of a Finance Document, gross negligence or wilful misconduct.

**Exclusion of liability:**

No Party (other than the Security Agent) may take any proceedings against any officer, employee or agent of the Security Agent in respect of any claim it might have against the Security Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document.

**Indemnity:**

- (a) Each other Finance Party shall indemnify the Security Agent, within three Business Days of demand, against any cost, loss or liability incurred by the Security Agent (otherwise than by reason of the Security Agent's gross negligence or wilful misconduct) in acting as Security Agent under the Finance Documents (unless the Security Agent has been reimbursed by the Borrower pursuant to a Finance Document).



- (b) The cost of such indemnity shall be borne by such Finance Parties pro rata to their respective entitlement in, or to, the Loans.
- (c) The liability shall be divided between such Finance Parties pro rata to the respective amounts of the Loans outstanding and/or available for drawing under the relevant Finance Document from time to time or, if after enforcement, pro rata to the amount of their recovery.
- (d) The Security Agent may, in priority to any payment to the Finance Parties, indemnify itself out of the Borrower's assets charged by the Security Documents in respect of, and pay and retain, all sums necessary to give effect to this indemnity and to all other indemnities given to it in the other Finance Documents in its capacity as Security Agent. The Security Agent shall have a lien on the Security Documents and the proceeds of enforcement of the Security Documents for all such sums.

**Resignation:**

- (a) The Security Agent may resign and appoint one of its Affiliates acting through an office in Poland as successor by giving notice to the other Finance Parties and the Borrower and registering such appointment in the pledge register in the Republic of Poland.
- (b) Alternatively the Security Agent may resign by giving notice to the other Finance Parties and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Security Agent and register such appointment in the pledge register in the Republic of Poland.
- (c) If the Majority Lenders have not appointed a successor Security Agent in accordance with paragraph (b) above within 30 days after notice of resignation was given, the Security Agent (after consultation with the Borrower) may appoint a successor Security Agent (acting through an office in Poland) and register such appointment in the pledge register in the Republic of Poland.
- (d) The retiring Security Agent shall, at its own cost, make available to the successor Security Agent such documents and records and provide such assistance as the successor Security Agent may reasonably request for the purposes of performing its functions as Security Agent under the Finance Documents.
- (e) The Security Agent's resignation notice shall only take effect upon the final registration of a successor in the pledge register in the Republic of Poland.



- (f) Upon the final registration of a successor in the pledge register in the Republic of Poland, the retiring Security Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Schedule. Its successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- (g) After consultation with the Borrower, the Majority Lenders may, by notice to the Security Agent, require it to resign in accordance with paragraph (b) above. In this event, the Security Agent shall resign in accordance with paragraph (b) above.

**Confidentiality:**

- (a) In acting as agent and/or pledge administrator for the Finance Parties, the Security Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.
- (b) If information is received by another division or department of the Security Agent, it may be treated as confidential to that division or department and the Security Agent shall not be deemed to have notice of it.
- (c) Notwithstanding any other provision to the contrary, the Security Agent is not obliged to disclose to any other person:
  - (i) any confidential information; or
  - (ii) any other information if the disclosure would or might in its reasonable opinion constitute a breach of any provision of law or a breach of fiduciary duty.

**Credit appraisal:**

Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each other Finance Party confirms to the Security Agent that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- (a) the financial condition, status and nature of each member of the Group;
- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;



- (c) whether that Finance Party has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (d) completeness of any information provided by the Security Agent, any other Party or by any other person under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

**Deduction from amounts payable by the Security Agent:**

If any Party owes an amount to the Security Agent under the Finance Documents the Security Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Security Agent would otherwise be obliged to make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

**Title:**

The Security Agent may accept without enquiry the title (if any) which the Borrower may have to any asset over which Security is intended to be created by any Security Document.

**Investments:**

Except as otherwise provided in any Security Document, all moneys which are received by the Security Agent under that Security Document may be invested in the name of or under the control of the Security Agent in any investments which may be selected by the Security Agent. Additionally, those moneys may be placed on deposit in an interest bearing account in the name of or under the control of the Security Agent at such bank or institution (including itself) and upon such terms as it may reasonably deem prudent and appropriate in the circumstances.



**Enforcement:**

The Security Agent shall to the extent practicable use all reasonable endeavours to enforce the Security constituted by the Security Documents if it receives instructions to do so from the relevant Finance Parties.

If the Security Agent requests for the purposes of enforcing any Security under any Security Document, each Finance Party (other than the Security Agent) shall provide the Security Agent with a duly executed power of attorney, or any other documents that might be necessary to authorise the Security Agent to act on its behalf in connection with all amounts outstanding to such Finance Party under the Finance Documents and any enforcement of any Security Interest under the Security Documents.

**Holding of recoveries:**

- (a) The Security Agent shall hold the recoveries for the benefit of the Finance Parties.
- (b) The recoveries shall be distributed between the Finance Parties in accordance with Clause 15.1.5 (*Partial Payments*). Once so applied, the Security Agent shall be under no obligation to monitor how the relevant person receiving any such amount has applied such amounts.
- (c) Only amounts actually received by the Security Agent shall be capable of being applied by the Security Agent in accordance with this point.
- (d) If the Security Agent receives any distribution under any document otherwise than in cash from any person, the Security Agent may realise such distribution as it sees fit and then shall apply the proceeds of such realisation in accordance with the provisions of this Schedule.
- (e) If the Security Agent receives any amount under this Agreement or under any other Finance Document in a currency other than the currency of the relevant debt the Security Agent may convert such amount into the currency of the relevant debt.

**Payment of Taxes:**

The Security Agent shall be entitled to make such deductions and withholdings (on account of Taxes or otherwise) from payments to any other Finance Party, as it is required by any applicable provision of law to make and to pay all Taxes assessed against it in respect of any property charged or assigned pursuant to the Security Documents or by virtue of its role as agent or trustee under the Finance Documents.



**Conflict with Security Documents:**

If there is any conflict between the provisions of this Schedule and any Security Documents with regard to instructions to or other matters affecting the Security Agent, this Schedule will prevail.



## SCHEDULE 10

### TIMETABLES

“D-x” refers to the number of Business Days before the relevant Utilisation Date/the first day of the relevant Interest Period.

Delivery of a duly completed Utilisation Request (Section 5 ( <i>Utilisation</i> ))	D-4 Business Day  10.00 a.m.
Facility Agent notifies the Lenders of the Loan in accordance with Clause 5.5 ( <i>Lenders’ participation</i> )	D-3 Business Days  10.00 a.m.
WIBOR is fixed	Quotation Day  11:00 a.m.
LIBOR is fixed	Quotation Day  11:00 a.m.
EURIBOR is fixed	Quotation Day  11:00 a.m.
Delivery of a duly completed Utilisation Request (Section 5 ( <i>Utilisation</i> ))	10.00 a.m.
D-4 Business Day	11:00 a.m.



## SCHEDULE 11

### ADDRESSES

#### **BORROWER**

Carey Agri International - Polska Sp. z o.o.  
Bobrowiecka 6, 00-728, Warsaw  
Telephone: +48 22 45 66 000  
Facsimile: +48 22 45 66 001  
E-mail:  
Attention: the Management Board

#### **THE ORIGINAL LENDERS**

##### **FORTIS BANK POLSKA S.A.**

ul. Suwak 3,  
02-676 Warsaw  
Poland  
Tel: +48 22 5669060  
Fax: +48 22 5669079  
E-mail: marta.loza@pl.fortis.com; katarzyna.nowakowska@pl.fortis.com; izabela.bogumil@pl.fortis.com  
Attention: Marta Łoza, Katarzyna Nowakowska, Izabela Bogumił

##### **FORTIS BANK S.A. /NV**

Austrian Branch  
Technologiestrasse 8,  
1120 Wien  
Austria  
Telephone: +43 1 81104 38183  
Facsimile: +43 1 81104 38168  
E-mail: angelika.gottweis@fortis.com; andrea.wallner@fortis.com  
Attention: Ms. Angelika Gottweis, Ms. Michaela Wallner



**Bank Polska Kasa Opieki S.A.**

**Departament Bankowości Inwestycyjnej i Finansowania Strukturalnego**

**Bank Polska Kasa Opieki SA**

ul. Towarowa 25 A  
00-958 Warsaw  
Poland  
Telephone: +48 22 531 95 60  
Facsimile: +48 22 531 95 36  
E-mail: agnieszka.wolska2@pekao.com.pl/ hubert.tarczynski@pekao.com.pl  
Attention: Agnieszka Wolska/Hubert Tarczynski

**ARRANGER, FACILITY AGENT AND SECURITY AGENT**

**FORTIS BANK POLSKA S.A.**

ul. Suwak 3,  
02-676 Warsaw  
Poland  
Tel: +48 22 5669060  
Fax: +48 22 5669079  
E-mail: marta.loza@pl.fortis.com; katarzyna.nowakowska@pl.fortis.com;  
izabela.bogumil@pl.fortis.com  
Attention: Marta Łoza, Katarzyna Nowakowska, Izabela Bogumił



**SIGNATORIES**

In witness whereof the Parties have signed this Credit Facility Agreement:

**FORTIS BANK POLSKA S.A.**

/s/ Robert Chudzik  
\_\_\_\_\_  
**NAME:** Robert Chudzik  
**POSITION:** Proxy

**FORTIS BANK S.A./NV, AUSTRIAN  
BRANCH**

/s/ Robert Chudzik  
\_\_\_\_\_  
**NAME:** Robert Chudzik  
**POSITION:** Proxy

**Bank Polska Kasa Opieki S.A.**

/s/ Dieter Lobnig  
\_\_\_\_\_  
**NAME:** Dieter Lobnig  
**POSITION:** Proxy

**CAREY AGRI INTERNATIONAL -  
POLAND SP. Z O.O.**

/s/ Przemyslaw Witas  
\_\_\_\_\_  
**NAME:** Przemyslaw Witas  
**POSITION:** Proxy

**FORTIS BANK POLSKA S.A.**

/s/ Marta Loza  
\_\_\_\_\_  
**NAME:** Marta Loza  
**POSITION:** Proxy

**FORTIS BANK S.A./NV, AUSTRIAN  
BRANCH**

/s/ Marta Loza  
\_\_\_\_\_  
**NAME:** Marta Loza  
**POSITION:** Proxy

**Bank Polska Kasa Opieki S.A.**

/s/ Agnieszka Wolska  
\_\_\_\_\_  
**NAME:** Agnieszka Wolska  
**POSITION:** Proxy

**CAREY AGRI INTERNATIONAL -  
POLAND SP. Z O.O.**

/blank/  
\_\_\_\_\_  
**NAME:**  
**POSITION:**



**[TO BE INCORPORATED INTO A NOTARIAL DEED]**

**BOLS Sp. z o.o.**  
as Pledgor

- and -

**BOLS Hungary Italáru-importor és Forgalmazó**  
**Korlátolt Felelősségű Társaság**  
as Company

- and -

**BANK POLSKA KASA OPIEKI S.A**

as Pledgee

**STAND ALONE PLEDGE OVER QUOTA AGREEMENT**

**December 21, 2007**



SAMPLE

**THIS STAND ALONE PLEDGE OVER QUOTA AGREEMENT<sup>1</sup> (this “Agreement”)** is made at the city of Budapest, Republic of Hungary, on December 21, 2007,

**AMONG:**

- (1) **BOLS Sp z o.o.**, a company incorporated in Poland, having its registered seat at PL-64600 Oborniki, Wielkopolskie, ul. Kowanowska 48., Poland, registered under KRS No. 00-00-013113, as pledgor(the “**Pledgor**”); and
- (2) **BOLS Hungary Itáláru-importor és Forgalmazó Korlátolt Felelősségű Társaság**, a company incorporated in Hungary, having its registered seat at HU-1123 Budapest, Alkotás u. 50, Hungary, registered under No. 01-09-069270 (the “**Company**”); and
- (3) **BANK POLSKA KASA OPIEKI S.A.**, a bank organized and existing under the laws of the Republic of Poland, with its registered seat in Warsaw at ul. Grzybowska 53/57, Poland, P.O. Box 1008, entered in the National Court Register (KRS) maintained by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register, Entry No. KRS 14843, tax identification number (NIP): 526-00-06-841, (formerly known as: Bank BPH S.A., a bank organized and existed under the laws of the Republic of Poland, with its former registered seat in Krakow at Al Pokoju 1, entered into the register of business entities of the National Court Register under KRS10260, the merger dated on November 30, 2007) as pledgee under the Facility Agreement (the “**Pledgee**”),

( the Company, the Pledgee and the Pledgor are herein collectively referred to as the “**Parties**” and any and each of them as a “**Party**”).

**RECITALS:**

**WHEREAS** the Company is a limited liability company duly incorporated in accordance with Hungarian law and is exclusively owned by the Pledgor;

**WHEREAS** pursuant to a credit facility agreement (the “**Credit Facility Agreement**”) dated 21 December, 2007 among CAREY Agri International - Poland Sp. z o.o.as borrower (the “**Borrower**”), and FORTIS BANK POLSKA S.A. a bank organized and existing under the laws of the Republic of Poland, having its registered seat at ul. Suwak 3, in Warsaw, entered in the National Court Register (KRS) maintained by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register, Entry No. KRS 6421, tax identification number (NIP): 676-007-83-01 and statistical number (REGON): 003915970, and FORTIS BANK AUSTRIA N.V. a bank organized and existing under the laws of Austria, with its registered office at Technologiesterasse 8, 1120 Wien, Austria entered into the

<sup>1</sup> **In Hungarian:** Üzletrészen Alapított Önálló Zálogjog





Commerce Register maintained by the Republic of Austria, under No. FN 263765 (further together “**FORTIS**”, or individually “**FORTIS BANK POLSKA S.A.**” and “**FORTIS BANK AUSTRIA N.V.**”) and the Pledgee, as lenders (FORTIS and Bank Polska Kasa Opieki S.A. shall be referred together as “**Lenders**”), the Lenders have agreed, subject to the terms and conditions of the Credit Facility Agreement -which requires that a pledge over the quota held by the Borrower in the Company of equal rank be granted to the Lenders - to extend a facility to the Borrower, the aggregate maximum principal amount of which is PLN 300.000.000,- (PLN three hundred million) (the “**Credit Facility Agreement**”, attached as Schedule 2 hereto).

**WHEREAS** on July 25, 2005, Central European Distribution Corporation Inc. a company incorporated in the United States of America, having its seat at 2 Bala Plaza, Suite 300, Bala Cynwyd PA 19004, in the USA, (the “CEDC”) issued high yield bonds (“**High Yield Bonds**”) in the United States of America. In connection with the High Yield Bonds, on July 25, 2005, the CEDC and ING BANK N.V. LONDON BRANCH, a banking corporation (naamloze vennootschap) duly incorporated under the laws of The Netherlands, with registered address at Amstelveenseweg 500, 1081 KL, Amsterdam, The Netherlands, registration No. 33031431, acting through its London Branch, with office address at 60 London Wall, London EC2M 5TQ, United Kingdom and registered in the United Kingdom under number FC010062 (“**ING BANK N.V. LONDON BRANCH**”) entered into an indenture agreement (“**Indenture**”) governed by the laws of the State of New York. Pursuant to Clause 11.13 (*Creation of Parallel Debt*)<sup>1</sup> of the Indenture, the CEDC has a pecuniary obligation constituting one single obligation under the laws of the State of New York, towards ING BANK N.V. LONDON BRANCH. Pursuant to Clause 4.9 of the Indenture, the CEDC and its subsidiaries (among others, the Pledgor) are not permitted to pledge their assets in favor of third parties (including the Lenders), unless the obligations under the High Yield Bonds are secured on an equal and ratable basis. Consequently, the CEDC, the Borrower, the Pledgor and ING BANK N.V. LONDON BRANCH have agreed that the pledges over the quota held by the Pledgor in the Company of equal ranking be granted to ING BANK N.V. LONDON BRANCH, FORTIS and the Pledgee, in order to secure ING BANK N.V. LONDON BRANCH ‘s claim towards the CEDC arising under Clause 11.13 (*Creation of Parallel Debt*) of the Indenture;

**AND WHEREAS** the Pledgor, as the owner of the quota representing 100 % of the registered capital of the Company, wishes to establish in favour of the Pledgee - (i) *pari passu* with its obligations deriving from a quota pledge agreement (the “**FORTIS Quota Pledge Agreement**”) securing the Borrower’s undertakings and obligations under the Credit Facility Agreement and (ii) *pari passu* with its obligations deriving from a quota pledge agreement (the “**ING Quota Pledge Agreement**”) securing CEDC’s undertakings and obligations under the Indenture - the charge on the quota provided herein as continuing collateral security for the performance of all payment obligations of the Borrower towards the Pledgee under the Finance Documents (as defined in the Credit Facility Agreement).



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NOW THEREFORE, IT IS AGREED AS FOLLOWS:

#### Interpretation

#### Facility Definitions

ALL CAPITALISED TERMS USED HEREIN WITHOUT DEFINITION SHALL HAVE THE RESPECTIVE MEANINGS ASCRIBED TO THEM IN THE CREDIT FACILITY AGREEMENT AND OR THE INDENTURE AGREEMENT, AND OR THE INTERCREDITOR AGREEMENT (IN CASE OF CONFLICTING TERMS THE INTERCREDITOR AGREEMENT WILL GOVERN).

#### Definitions

In this Agreement:

“Pledge”	means the pledge created by, and pursuant to, this Agreement.
“Civil Code”	means the Act IV of 1959 (as amended) on the Civil Code of the Republic of Hungary, as amended.
“Creditors”	means the Lenders and the Pledgee,
“Indenture Default”	means any of the events described as events of default in the Indenture.
“Indenture Default Notice”	means Default Notice regarding an Indenture Default.
“Intercreditor Agreement”	means the agreement entered into, amongst others, between the Lenders, the ING BANK N.V. LONDON BRANCH, the Company and the Pledgor on 21 December, 2007, in Warsaw.
“Debtors”	means the Pledgor;
“Secured Claim”	means the pecuniary claim of the Pledgee towards the Pledgor under the Credit Facility Agreement and the other Financial Documents



“Security Agent” means FORTIS BANK POLSKA S.A., as further defined in the Credit Facility Agreement and in Section 2.3 hereunder.

## PLEDGE

### Creation of Pledge

As continuing collateral security to Secure the Secured Claim (including all fees, costs and expenses arising from the enforcement of the security provided hereunder), the Pledgor hereby establishes in favour of the Pledgee a first-ranking stand alone pledge (the “**Pledge**”) on the Pledgor’s quota in the Company owned by it from time to time, which quota is more fully described in Schedule 1 (*Secured Quota*) (“**Secured Quota**”), with such Pledge securing the principal amount of PLN 300.000.000,- (PLN three hundred million) plus interest, default interest and any other fees, costs and expenses payable by the Borrower under the Credit Facility Agreement and the other Finance Documents . The Pledge shall constitute a pledge (“*zálogjog*”) as provided by Sections 251 and following of the Civil Code. The Pledge will rank pari passu with the ING Quota Pledge and the Fortis Quota Pledge.

### Recording of the Pledge

- (a) (a) The Pledgor shall cause the Company and the Company hereby undertakes to (i) record the existence of the Pledge constituted by this Agreement in favour of the Pledgee, at the same time and on the condition that the pledges under the FORTIS Quota Pledge Agreement and the ING Quota Pledge Agreement are registered into the same into the company register of the Company by submitting a Hungarian translation of this Agreement and an accompanied request for registration of the Pledge contemplated hereunder to the Court of Registration having jurisdiction over the Company, and (ii) provide the Pledgee with a copy of these documents together with satisfactory evidence of the filing of them, within ten (10) Business Days following the execution of this Agreement. Neither the Pledgor nor the Company shall be entitled to take any action whatsoever to remove the reference to the Pledge from the company register of the Company, maintained by the Court of Registration having jurisdiction over the Company, unless in accordance with the provisions of Clause 3.2 (*Termination and release*), or otherwise with the prior written consent of the Pledgee.
- (b) (b) By signing this Agreement, the Pledgor irrevocably and unconditionally agrees to the establishment of the Pledge, and the Pledgor and the Company agree to assume all obligations arising from the establishment of such Pledge.
- (c) (c) The Parties for the purposes of the creation and registration of the Pledge into the company register, maintained by the Court of Registration having jurisdiction over the Company as per subsection (a) hereinabove, hereby authorise and instruct Dr. Tóth Ádám’s Notary Office (the “**Notary**”), to incorporate this Agreement into a Notarial deed, and to take all necessary actions on the Pledgee’s behalf for the purposes of effecting such incorporation.



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**Additional security**

The Pledge constituted by this Agreement is in addition to and is not in any way prejudiced or affected by any other security now or subsequently held by the Pledgee for any of the Secured Claims. The powers conferred on the Pledgee by this Agreement in relation to the Secured Claims and the Secured Quota shall be in addition to and not in substitution for the rights conferred on the Pledgee by the laws of Hungary except in so far as they are expressly excluded in this Agreement and, where there is any ambiguity or conflict between such rights contained in any such laws of Hungary and those conferred by this Agreement, then the terms of this Agreement shall, to the extent permitted by such laws of Hungary, prevail.

**Exercise of ownership rights**

Subject to the terms and conditions set forth in the Credit Facility Agreement, this Agreement and applicable law, the Pledgor shall be entitled to exercise its ownership rights in respect of the Secured Quota in accordance with applicable law until such time as the Pledge shall be enforced by the Pledgee in accordance with the terms of this Agreement, provided that upon the serving of a Default Notice to the Pledgor: (i) the Company shall pay any and all dividends or distributions which are declared and payable (including unpaid distributions accrued prior to the date of receipt of such notice) with respect to the Secured Quota to the Pledgee, and (ii) the Pledgor shall cast its vote attaching to the Secured Quota strictly in accordance with the Pledgee's, instructions, which instructions to Pledgor shall timely seek, and the Pledgor shall not cast any votes attaching to the Secured Quota without first seeking and receiving the Pledgee's, instructions.

**Debts and obligations relating to the Secured Quota**

The Pledgee shall not assume or be liable for any debts or obligations of the Pledgor or the Company in connection with the Secured Quota and the Pledgor and the Company hereby undertake to ensure that all such debts and obligations are at all times fully paid and satisfied in accordance with the constitutional documents of the Company and Hungarian law, both prior to and following any Event of Default. In the event that the Pledgor or the Company fails to comply with any of the above obligations, the Pledgor and the Company shall, in addition to their other respective obligations, indemnify the Pledgee against all losses, liabilities, damages, costs, fees and expenses suffered or incurred by the Pledgee as a result of such failure. If the Pledgee performs any of the obligations of the Pledgor or the Company set forth in this Clause 2.5 in the place of the Pledgor or the Company, as the case may be, the Pledgor and the Company shall bear all costs and expenses incurred in connection with such performance, and the Pledgor and the Company shall indemnify the Pledgee against all losses, liabilities, damages, fees, costs and



expenses suffered or reasonably incurred by the Pledgee in connection therewith. In such an event, the Pledgor shall have the right to inform the Pledgee about the proposed optimal way of complying with these obligations and the Pledgee will consider it, acting reasonably.

#### Protection of Pledge

The Pledgee shall be entitled at any time if justifiable grounds exist to take any reasonable action necessary for the purposes of perfecting and protecting the Pledge constituted by this Agreement. The Pledgor hereby agree to indemnify the Pledgee on demand against all losses, liabilities, damages, fees, costs and expenses suffered or reasonably incurred by the Pledgee in the perfection or protection or attempted perfection or protection of the Pledge constituted by this Agreement.

#### Assignment, Continuing Security

- (a) The Parties agree that any assignee becoming a party to the Credit Facility Agreement pursuant to Section 13 ([*Changes to Parties*]) of the Credit Facility Agreement as a Lender or any other person otherwise becoming a party to the Credit Facility Agreement as an assignee or transferee or successor of the Lender shall thereupon become entitled to the benefit of this Agreement and the security established hereunder as if such assignee or person had originally been and had been named as a party to this Agreement.
- (b) The Pledge constituted by this Agreement shall:
  - (i) be a continuing security for the due payment, satisfaction and discharge in full of the Secured Claims and such security shall not be considered as satisfied or discharged or prejudiced by any intermediate payment, satisfaction or settlement of any part of the Secured Claims or any other matter or thing whatsoever; and
  - (ii) not be prejudiced by any time or indulgence granted to any person, or any abstention or delay by the Pledgee in perfecting or enforcing any security, guarantee, right or remedy whatsoever.

#### ENTRY INTO EFFECT AND TERMINATION OF pledge

##### Entry into effect

This Agreement and the Pledge established hereunder shall enter into full force and effect on the date of when the FORTIS Quota Pledge Agreement, and the ING Quota Pledge Agreement had been registered with the relevant Court of Registration having jurisdiction over the Company in favor of each of FORTIS BANK POLSKA S.A., FORTIS BANK AUSTRIA N.V. and ING BANK N.V. LONDON BRANCH, respectively.



#### Termination and release

The Pledge established pursuant to this Agreement shall be terminated and released upon the occurrence of the earlier of the following conditions:

- (a) the full repayment of the Secured Claims in accordance with the terms of the Credit Facility Agreement and the other Finance Documents; or
- (b) the enforcement of the charge and the exercise of all remedies available to the Pledgee under the terms of this Agreement and applicable law in connection with such enforcement.

Upon the termination and release of the Pledge, the Pledgee shall authorise the Pledgor in writing to delete the references to the Pledge from the company register, maintained by the Court of Registration, having jurisdiction over the Company within ten (10) Business Days following receipt of a written request to do so by the Pledgors.

#### REPRESENTATIONS AND WARRANTIES

##### Representations and warranties

The Pledgor hereby represents and warrants to the Pledgee that:

- (a) it has exclusive ownership of the Secured Quota attributed to it in Schedule 1 (*Secured Quota*), free and clear of all Encumbrances (save all Permitted Security, the FORTIS Quota Pledge Agreement and the ING Quota Pledge Agreement), and no third party has any rights whatsoever in connection with such Secured Quota;
- (b) it has not reserved a priority ranking in the company register, maintained by the Court of Registration, having jurisdiction over the Company in respect of the Secured Quota attributed to it in Schedule 1 (*Secured Quota*) (as regulated by Sections 262(4), 262(5) and 264(2) of the *Civil Code*);
- (c) other than as disclosed to the Pledgee in writing, and to the best of its knowledge and belief no litigation, arbitration or administrative proceedings of or before any court, arbitration tribunal or agency which, if adversely determined,



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would reasonably be expected to materially and adversely effect the value of the Secured Quota have been started or (to the best of its knowledge and belief) threatened (if capable of having a Material Adverse Effect) against it or in respect of the Secured Quota; and

- (d) the Pledge granted by the Pledgor shall, upon the execution of this Agreement, constitute a first-ranking charge over each of the Secured Quota, *pari passu* with the first ranking pledges established on the same Secured Quota by signing (i) the FORTIS Quota Pledge Agreement with FORTIS BANK POLSKA S.A. and FORTIS BANK AUSTRIA N.V. and (ii) the ING Quota Pledge Agreement with ING BANK N.V. LONDON BRANCH.

#### Repetition of representations and warranties

The representations and warranties set forth in Clause 4.1 (*Representations and warranties*) are made by the Pledgor and the Company by reference to the facts and circumstances then existing on the date of the Utilization Request and on the first day of each Interest Period.

#### COVENANTS AND UNDERTAKINGS

##### Notification of claims

The Pledgor and the Company shall immediately notify the Pledgee in writing upon becoming aware of any pending or (to the best of its knowledge and belief) threatened (if capable of having a Material Adverse Effect) claims, actions or proceedings before any court, arbitration tribunal or administrative authority in connection with the Secured Quota which claim action or proceeding would reasonably be expected to materially adversely effect the value of the Secured Quota.

##### Adverse events

The Pledgor and the Company shall immediately notify the Pledgee in writing of any event or circumstances which would reasonably be expected to materially adversely effect the value of the Secured Quota or the Company.

##### Prohibition against Encumbrances

The Pledgor shall not create nor allow to subsist any encumbrance whatsoever against the Secured Quota (save Permitted Securities, including the FORTIS Quota Pledge Agreement and the ING Quota Pledge Agreement) and shall not sell, transfer, or otherwise dispose of the Secured Quota in favour of any person.



#### Voting rights

Subject to Clause 2.4 (*Exercise of ownership rights*), the Pledgor shall exercise its voting rights attaching to the Secured Quota in a manner consistent with the interests of the Pledgee. In particular, and unless agreed otherwise by the Pledgee, FORTIS, and ING BANK N.V. LONDON BRANCH, acting unanimously, the Pledgor shall not propose, and shall cast the votes attaching to the Secured Quota against any proposal for, the winding-up, liquidation or merger of the Company or any other action or omission which is liable to result in a change of the rights attaching to the Secured Quota, namely an increase of the registered capital of the Company further to which a quota would be issued in favor of any third party.

#### No reduction of registered capital

Save as may be required by mandatory applicable law neither the Pledgor nor the Company shall, without the prior written consent of the Pledgee, FORTIS and ING BANK N.V. LONDON BRANCH, acting unanimously, reduce the Company's registered capital and shall not pass any such resolution, and the Pledgor agrees that it shall not take any action or steps whatsoever to facilitate the reduction of the Company's registered capital without the prior written consent of the Pledgee, FORTIS and ING BANK N.V. LONDON BRANCH, acting unanimously, unless agreed otherwise by the Pledgee, FORTIS and ING BANK N.V. LONDON BRANCH, acting unanimously.

#### EVENTS OF DEFAULT AND RECOURSES

##### Recourses upon Event of Default

- (a) Upon the occurrence of any Event of Default which is continuing, the Pledgee shall have the right to terminate this Agreement with a ten (10) days written notice and - subject to this Section 6.1 (b) - to take all such enforcement actions against the Secured Quota as are permitted by this Agreement or by Hungarian law, and in particular, the Pledgee, in respect of any part or the entire Secured Claims under the Credit Facility Agreement, may - subject to this Section 6.1 (b) - initiate judicial enforcement proceedings against the Secured Quota without litigious court proceedings or judgement.





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- (b) The Parties agree that the Pledgee is entitled to elect to enforce the charge by the means specified below:
- (i) **via court enforcement proceedings (as set out in Section 255 of the *Civil Code*); or**
  - (ii) **together with the Pledgor may, within three (3) months following the date on which the right of enforcement arose, sell the Secured Quota at the price being not less than seventy five per cent (75%) of the market value as determined pursuant to Clause 6.2 (*Determination of the market value of the Secured Quota*) (as set out in Section 257 (1) of the *Civil Code*); or**
  - (iii) **may, within one (1) year following the date when the right of enforcement arose, instruct a Hungarian institution engaged in granting mortgage-backed loans or arranging auctions as its main business to sell all or any of the Secured Quota at a price being not less than seventy five per cent (75%) of the market value as determined pursuant to Clause 6.2 (*Determination of the market value of the Secured Quota*) (as set out in Section 257 (3) of the *Civil Code* ; or**
  - (iv) **if the Pledgee is engaged in granting mortgage-backed loans under the Hungarian law, they may sell all or any of the Secured Quota under the same terms as set out in sub-paragraph (iii) of paragraph (b) of this Clause 6.1; or**
  - (v) **by any other means prescribed by the applicable laws of Hungary in connection with the enforcement of the charge.**
- (c) The Pledgee shall within 15 (fifteen) days before the sale notify the Pledgor in writing of (i) the method, (ii) the place and (iii) the date of such sale. The Pledgee hereby confirms that it will comply with the provisions of Government Decree 12/2003 (I. 30.), including but not limited to notifying the Pledgor of its intention to sell the Secured Quota, at least 30 (thirty) days before the intended sale.
- (d) For the purposes of this Clause 6.1, the Parties agree that (i) the Parties may at any time during the enforcement process introduce any person who can potentially buy



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the Secured Quota on the terms set out in this Clause 6.1. and (ii) the Pledgee, together with BPKO S.A. as pledgee under the BPKO Quota Pledge Agreement, shall consider all relevant parameters of the offers (including, but not limited to, the purchase price) submitted by such potential buyers.

#### **Determination of the market value of the Secured Quota**

For the purposes of determining the fair market value of the Secured Quota, the Parties and FORTIS shall use the valuation services of an independent appraisal (selected pursuant to the process described below). Such independent appraisal shall be appointed in the following process:

- (a) the Pledgee shall propose four (4) internationally recognized companies having expertise to determine the fair market price of the Secured Quota;
- (b) the Pledgor shall, within five (5) Business Days of receipt of the Pledgee, select one of the entities proposed and such selected entity shall be appointed as the independent appraisal; and
- (c) failing the Pledgor to select such independent appraisal within five (5) Business Days of receipt of the above proposal, the Pledgee may in its sole discretion appoint the independent appraisal from the proposed four (4) internationally recognized companies.

The independent appraisal shall complete the evaluation (including recommendations regarding the sale strategy) and provide copies to both parties within thirty (30) days of its appointment.

#### **GENERAL**

##### **Further actions**

**The Pledgor and the Company shall take all further actions, at the Pledgor's and the Company's cost, reasonably requested by the Pledgee, in connection with the creation, perfection, protection and enforcement of the Pledge established hereunder.**

##### **Waiver of claims**

**The Pledgor and the Company hereby waive all claims against the Pledgee, , for damages suffered by it in connection with the exercise of the Pledgee 's rights established hereunder, except damages caused by the Pledgee s intentionally or by its gross negligence.**



#### Amendment or modification

This Agreement may only be amended or modified by notarial deed duly executed by each of the Parties.

#### Severability

Should any provision of this Agreement be declared invalid or unenforceable, such declaration shall not affect the validity or enforceability of the other provisions of this Agreement.

#### Entire agreement

The Parties hereto agree that , to the extent that any of the terms contained herein conflict with those of the Credit Facility Agreement and/or the Indenture and/or the Intercreditor Agreement, the provisions of the Credit Facility Agreement and the Indenture, (in case of conflicting rules between these Agreements, to the benefit of the Intercreditor Agreement) shall prevail. By signing this Agreement, the Pledgor confirms that it is fully aware of, and understands and accepts, the terms and conditions of the Credit Facility Agreement, the other Finance Documents , the Indenture and the Intercreditor Agreement.

#### Notices

All communications under or in connection with this Agreement must be in writing. The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each party to this Agreement to which any communication or document is to be delivered under or in connection with this Agreement are as follows:

- in case of the Pledgor:

**BOLS Sp. z o.o.**

**Address: ul. Bokserska 66 A**

**64600 Oborniki, Wielkopolskie, ul. Kowanowska 48.**

**Poland**

**Tel: + 48 61 297 43 00**

**Fax: +48 61 297 43 01**

**Attention of: the Chairman of the Management Board**

- in case of the Pledgee:



**Bank Polska Kasa Opieki S.A.**

**Address:**

**1008 at ul. Grzybowska 53/57, Warsaw**

**Poland**

**Tel: +48 22 656 00 00**

**Fax: +48 22 656 00 04**

**Attention of: [PLEASE INSERT INFORMATION]**

- **in case of the Company:**

**BOLS Hungary Italáru-importor és Forgalmazó Korlátolt Felelősségű Társaság**

**1123 Budapest, Alkotás u. 50.**

**Hungary**

**Tel: +36 132 52 500**

**Fax: +36 132 52 501**

**Attention of: Company's General Manager**

or any substitute address, fax number or department or officer as such party may notify to the Pledgee or to the Pledgor with no less than five Business Days' notice.

Any communication or document made or delivered by one party to another in connection with this Agreement will only be effective (i) if by fax, when received in legible form; or (ii) if by letter, when it is delivered to the address of the party and, in case of a letter sent by post, five days after being deposited at a post office in a postage prepaid envelope addressed to the party. If a particular department or officer is specified as a part of a party's address details, the communication must be addressed to that department or officer.

Each communication and document delivered by one party to another in connection with this Agreement must be in English or Polish accompanied by an English translation certified as a true and accurate translation by an officer of the party delivering it.

**Language**

This Agreement has been executed in the English language only. Notwithstanding any translation of this Agreement into the Hungarian language, the English language version shall prevail.

**Governing law**

This Agreement shall be governed by and construed in accordance with the laws of Hungary, as the same may be amended or modified from time to time.

**Costs**

The Pledgor and the Company shall bear all fees, costs, expenses, and taxes relating to this Agreement, including without limitation all fees, costs, expenses and taxes arising from the recording, release or termination of the Pledge.

**Jurisdiction**

2. In case of any legal dispute between the Parties, subject to the applicable rules of competence, the Parties hereto hereby irrevocably submit to the exclusive jurisdiction of the Central District Court of Pest as well as the Metropolitan Court.

3.

**AFTER DUE READING** and having understood its content and legal consequences, the Parties have caused this Agreement to be executed and confirm that it is in accordance with their contractual intentions.

**BOLS Sp. z o.o.,**  
as Pledgor

**BOLS Hungary Italáru-importor és Forgalmazó**  
**Korlátolt Felelősségű Társaság**  
as Company

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:



**FORTIS Bank Polska S.A.**  
as Pledgee and as Lender and as Security  
Agent

**Bank Polska Kasa Opieki S.A.,** as Pledgee

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:



SCHEDULE 1

SECURED QUOTA

<u>Secured Quota</u>	<u>Nominal Value</u>	<u>% of Registered Capital</u>
<b>BOLS Sp. z o.o.,</b> as Pledgor (registration number: 00-00-013113, PL-64600 Oborniki, Wielkopolskie, ul. Kowanowska 48)	HUF 91,240,000.00 (ninety one million two hundred and forty thousand Hungarian Forints)	100%



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**FORTIS DECLARATION to the****BPKO Quota Pledge Agreement**

between Bols Sp. z o.o. and BANK Polska Kasa Opieki S.A., dated [●], Budapest

Terms and conditions, if not otherwise defined herein, shall have the meaning as set forth in the Quota Pledge Agreement between Bols Sp. z o.o. [●], BOLS Hungary Itálárú-importor és Forgalmazó Korlátolt Felelősségű Társaság] and BANK Polska Kasa Opieki S.A., dated [●], Budapest.

We the undersigned and duly authorised representatives of FORTIS BANK POLSKA S.A., bank organized and existing under the laws of the Republic of Poland, having its registered seat at ul. Suwak 3, in Warsaw, entered in the National Court Register (KRS) maintained by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register, Entry No. KRS 6421, tax identification number (NIP): 676-007-83-01 and statistical number (REGON): 003915970 and FORTIS BANK AUSTRIA N.V., a bank organized and existing under the laws of Austria, with its registered office at Technologiestrasse 8, 1120 Wien, Austria entered into the Commerce Register maintained by the Republic of Austria, under No. FN 263765 as lender under the Credit Facility Agreement entered into with CAREY Agri International - Poland Sp. z o.o. ("CAREY Agri") on [●], 2007, and as pledgee under the FORTIS Quota Pledge Agreement entered into with Bols Sp. z o.o. ("Bols") on [●], 2007, hereby declare that we have read and therefore are fully aware of all terms and conditions of

- (i) the ING Quota Pledge Agreement;
- (ii) the BPKO Quota Pledge Agreement;
- (iv) the Credit Facility Agreement and any and all attached documents thereto;
- (v) the Indenture and any and all attached documents thereto; and
- (vi) the Intercreditor Agreement.

We understand and acknowledge that the Secured Quota shall serve as first ranking collateral to secure our claims and rights under the Credit Facility Agreement and the Fortis Quota Pledge Agreement against Carey Agri and the Pledgor *pari passu* with the respective claims and rights of (i) ING BANK N.V. LONDON BRANCH under the ING Quota Pledge Agreement and the Indenture, and (ii) BPKO S.A. under the BPKO Quota Pledge Agreement and the Credit Facility Agreement, respectively.

We further undertake and acknowledge that pursuant to the respective provisions of the ING Quota Pledge Agreement, the BPKO Quota Pledge Agreement and the FORTIS Quota Pledge Agreement, we may enforce our claims against the Secured Quota - in any and all circumstances - pursuant to Section 6. of the Fortis Quota Pledge Agreement and the BPKO Quota Pledge Agreement.





Dated: [●], Budapest

In the name and on behalf of  
FORTIS BANK POLSKA S.A.,

\_\_\_\_\_  
name:  
title:

In the name and on behalf of  
FORTIS BANK AUSTRIA N.V

\_\_\_\_\_  
name:  
title:



**ING BANK LONDON BRANCH DECLARATION to the**  
**BPKO Quota Pledge Agreement**  
between Bols Sp. z o.o. and BANK PH S.A., dated [•], Budapest

Terms and conditions, if not otherwise defined herein, shall have the meaning as set forth in the Quota Pledge Agreement between Bols Sp. z o.o. [•], BOLS Hungary Itálárú-importor és Forgalmazó Korlátolt Felelősségű Társaság] and BANK PH S.A dated [•], Budapest.

We the undersigned and duly authorised representatives of ING BANK N.V. LONDON BRANCH, a banking corporation (*naamloze vennootschap*) duly incorporated under the laws of The Netherlands, with registered address at Amstelveenseweg 500, 1081 KL, Amsterdam, The Netherlands, registration no. 33031431, acting through its London Branch, with office address at 60 London Wall, London EC2M 5TQ, United Kingdom and registered in the United Kingdom under number FC010062 (“**ING BANK N.V. LONDON BRANCH**”), as lender under the Indenture Agreement entered into with Central European Distribution Corporation Inc.

(“**CEDC**”) on July 25, 2005, and as pledgee under the ING Quota Pledge Agreement entered into with Bols Sp. Z.o.o. (“**Bols**”) on [•] hereby declare that we have read and therefore are fully aware of all terms and conditions of

- (i) the Fortis Quota Pledge Agreement;
- (ii) the BPKO Quota Pledge Agreement;
- (iv) the Credit Facility Agreement and any and all attached documents thereto;
- (v) the Indenture and any and all attached documents thereto and.
- (vi) the Intercreditor Agreement.

We understand and acknowledge that the Secured Quota shall serve as first ranking collateral to secure our claims and rights under the Indenture and the ING Quota Pledge Agreement against CEDC and the Pledgor *pari passu* with the respective claims and rights of (i) Fortis under the Fortis Quota Pledge Agreement and the Credit Facility Agreement, and (ii) BPKO S.A. under the BPKO Quota Pledge Agreement and the Credit Facility Agreement against the Borrower and the Pledgor, respectively.



Dated: [•], Budapest

In the name and on behalf of

**ING BANK N.V. LONDON BRANCH**

\_\_\_\_\_  
name:  
title:

\_\_\_\_\_  
name:  
title:



Schedule 2.

The Credit Facility Agreement  
[attached]



Schedule 3.

The Indenture Agreement  
[attached]



Schedule 4.

The FORTIS Quota Pledge Agreement  
[attached]



Schedule 5.

The ING Quota Pledge Agreement  
[attached]

\_\_\_\_\_



**[TO BE INCORPORATED INTO A NOTARIAL DEED]**

**BOLS Sp. z o.o.**  
as Pledgor

- and -

**BOLS Hungary Itáláru-importor és Forgalmazó**  
**Korlátolt Felelősségű Társaság**  
as Company

- and -

**FORTIS BANK POLSKA S.A.**  
**and FORTIS BANK AUSTRIA N.V.**

as Pledgee

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**STAND ALONE PLEDGE OVER QUOTA AGREEMENT**

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**December 21, 2007**





**THIS STAND ALONE PLEDGE OVER QUOTA AGREEMENT<sup>3</sup> (this “Agreement”)** is made at the city of Budapest, Republic of Hungary, on December 21, 2007,

**AMONG:**

- (4) **BOLS Sp. z o.o.**, a company incorporated in Poland, having its registered seat at PL-64600 Oborniki, Wielkopolskie, ul. Kowanowska 48., Poland, registered under KRS No. 00-00-013113, as pledgor(the “**Pledgor**”); and
- (5) **BOLS Hungary Italáru-importőr és Forgalmazó Korlátolt Felelősségű Társaság**, a company incorporated in Hungary, having its registered seat at HU-1123 Budapest, Alkotás u. 50, Hungary, registered under No. 01-09-069270 (the “**Company**”); and
- (6) **FORTIS Bank Polska S.A.**, a bank organized and existing under the laws of the Republic of Poland, having its registered seat at ul. Suwak 3, in Warsaw, entered in the National Court Register (KRS) maintained by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register, Entry No. KRS 6421, tax identification number (NIP): 676-007-83-01 and statistical number (REGON): 003915970, as Security Agent under the Facility Agreement and pledgee (“**FORTIS Bank Polska**”), and
- (7) **FORTIS BANK AUSTRIA N.V.**, a bank organized and existing under the laws of Austria, with its registered office at Technologiessrasse 8, 1120 Wien, Austria entered into the Commerce Register maintained by the Republic of Austria, under No. FN 263765 (“**Fortis Bank Austria**”),

(FORTIS Bank Polska and Fortis Bank Austria hereinafter jointly referred to as the “**Pledgee**” or “**Pledgees**” (the Company, the Pledgees and the Pledgor are herein collectively referred to as the “**Parties**” and any and each of them as a “**Party**”).

**RECITALS:**

**WHEREAS** the Company is a limited liability company duly incorporated in accordance with Hungarian law and is exclusively owned by the Pledgor;

**WHEREAS** pursuant to a credit facility agreement (the “**Credit Facility Agreement**”) dated 21 December , 2007 among CAREY Agri International—Poland Sp. z o.o., as borrower (the “**Borrower**”), and the Pledgees and Bank Polska Kasa Opieki S.A. a bank organized and existing under the laws of the Republic of Poland, with its registered office in Warsaw at ul. Grzybowska 53/57, Poland, P.O. Box 1008, entered in the National Court Register (KRS) maintained by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register, Entry No. KRS 14843, tax identification number (NIP): 526-00-06-841, (formerly known as: Bank BPH S.A., the merger dated on November 30, 2007) ,as lenders, (the Pledgees and Bank Polska Kasa Opieki S.A. shall be referred together as “**Lenders**”) the Lenders have agreed, subject to the terms and conditions of the Credit Facility Agreement -which requires that a pledge over the quota held by the Borrower in the Company of equal rank be granted to the Lenders - to extend a facility to the Borrower, the aggregate maximum principal amount of which is PLN 300.000.000,- (PLN three hundred million) (the “**Credit Facility Agreement**”, as attached in Schedule 2 hereto).

<sup>3</sup> **In Hungarian:** Üzletrészen Alapított Önellő Zálogjog



**WHEREAS** on July 25, 2005, Central European Distribution Corporation Inc. a company incorporated in the United States of America, having its seat at 2 Bala Plaza, Suite 300, Bala Cynwyd PA 19004, in the USA, (the “**CEDC**”) issued high yield bonds (“**High Yield Bonds**”) in the United States of America. In connection with the High Yield Bonds, on July 25, 2005, CEDC and ING BANK N.V. LONDON BRANCH, a banking corporation (*naamloze vennootschap*) duly incorporated under the laws of The Netherlands, with registered address at Amstelveenseweg 500, 1081 KL, Amsterdam, The Netherlands, registration No. 33031431, acting through its London Branch, with office address at 60 London Wall, London EC2M 5TQ, United Kingdom and registered in the United Kingdom under number FC010062 (“**ING BANK N.V. LONDON BRANCH**”) entered into an indenture agreement (“**Indenture**”) governed by the laws of the State of New York. Pursuant to Clause 11.13 (*Creation of Parallel Debt*)<sup>4</sup> of the Indenture, CEDC has a pecuniary obligation constituting one single obligation under the laws of the State of New York, towards ING BANK N.V. LONDON BRANCH. Pursuant to Clause 4.9 of the Indenture, the CEDC and its subsidiaries (among others, the Pledgor) are not permitted to pledge their assets in favor of third parties (including the Lenders), unless the obligations under the High Yield Bonds are secured on an equal and ratable basis. Consequently, the CEDC, the Borrower, the Pledgor and ING BANK N.V. LONDON BRANCH have agreed that the pledges over the quota held by the Pledgor in the Company of equal ranking be granted to ING BANK N.V. LONDON BRANCH, BPKO S.A. and the Pledgees, in order to secure ING BANK N.V. LONDON BRANCH ‘s claim towards CEDC arising under Clause 11.13 (*Creation of Parallel Debt*) of the Indenture;

**AND WHEREAS** the Pledgor, as the owner of the quota representing 100 % of the registered capital of the Company, wishes to establish in favour of the Pledgee - (i) *pari passu* with its obligations deriving from a quota pledge agreement (the “**BPKO Quota Pledge Agreement**”) securing the Borrower’s undertakings and obligations under the Credit Facility Agreement and (ii) *pari passu* with its obligations deriving from a quota pledge agreement (the “**ING Quota Pledge Agreement**”) securing CEDC’s undertakings and obligations under the Indenture - the charge on the quota provided herein as continuing collateral security for the performance of all payment obligations of the Borrower towards the Pledgee under the Finance Documents (as defined in the Credit Facility Agreement).

**NOW THEREFORE, IT IS AGREED AS FOLLOWS:**

#### **Interpretation**

#### **Facility Definitions**

**ALL CAPITALISED TERMS USED HEREIN WITHOUT DEFINITION SHALL HAVE THE RESPECTIVE MEANINGS ASCRIBED TO THEM IN THE CREDIT FACILITY AGREEMENT AND OR THE INDENTURE AGREEMENT AND OR THE INTERCREDITOR AGREEMENT (IN CASE OF CONFLICTING TERMS THE INTERCREDITOR AGREEMENT WILL GOVERN).**



## Definitions

In this Agreement:

“Pledge”	means the pledge created by, and pursuant to, this Agreement.
“Civil Code”	means the Act IV of 1959 (as amended) on the Civil Code of the Republic of Hungary, as amended.
“Creditors”	means the Lenders and the Pledgee,
“Indenture Default”	means any of the events described as events of default in the Indenture.
“Indenture Default Notice”	means Default Notice regarding an Indenture Default.
“Intercreditor Agreement”	means the agreement entered into, amongst others, between the Lenders, the ING BANK N.V. LONDON BRANCH, the Company and the Pledgor on 21 December, 2007, in Warsaw.
“Debtors”	means the Pledgor;
“Secured Claim”	means the pecuniary claim of the Pledgees towards the Pledgor under the Credit Facility Agreement and the other Financial Documents
“Security Agent”	means FORTIS BANK POLSKA S.A., as further defined in the Credit Facility Agreement and in Section 2.3 hereunder.

## PLEDGE

### Creation of Pledge

As continuing collateral security to Secure the Secured Claim (including all fees, costs and expenses arising from the enforcement of the security provided hereunder), the Pledgor hereby establishes in favour of the Pledgees a first-ranking stand alone pledge (the “**Pledge**”) on the Pledgor’s quota in the Company owned by it from time to time, which quota is more fully described in Schedule 1 (*Secured Quota*) (“**Secured Quota**”), with such Pledge securing the principal amount of PLN 300.000.000,- (PLN three hundred million) plus interest, default interest and any other fees, costs and expenses payable by the Borrower under the Credit Facility Agreement and the other Finance Documents. The Pledge shall constitute a pledge (“*zálogjog*”) as provided by Sections 251 and following of the Civil Code. The Pledge will rank *pari passu* with the ING Quota Pledge and the BPKO Quota Pledge.

### Recording of the Pledge

- (d) (a) The Pledgor shall cause the Company and the Company hereby undertakes to record the existence of the Pledge constituted by this Agreement in favour of the Pledgee, at the same time and on



the condition that the pledges under the BPKO Quota Pledge Agreement and the ING Quota Pledge Agreement are registered into the same into the company register of the Company by submitting a Hungarian translation of this Agreement and an accompanied request for registration of the Pledge contemplated hereunder to the Court of Registration having jurisdiction over the Company, and (ii) provide the Pledgee with a copy of these documents together with satisfactory evidence of the filing of them, within ten (10) Business Days following the execution of this Agreement. Neither the Pledgor nor the Company shall be entitled to take any action whatsoever to remove the reference to the Pledge from the company register of the Company maintained by the Court of Registration having jurisdiction over the Company, unless in accordance with the provisions of Clause 3.2 (*Termination and release*), or otherwise with the prior written consent of the Pledgee.

- (e) (b) By signing this Agreement, the Pledgor irrevocably and unconditionally agrees to the establishment of the Pledge, and the Pledgor and the Company agree to assume all obligations arising from the establishment of such Pledge.
- (f) (c) The Parties for the purposes of the creation and registration of the Pledge into the company register, maintained by the Court of Registration having jurisdiction over the Company as per subsection (a) hereinabove, hereby authorise and instruct Dr. Tóth Ádám's Notary Office (the "**Notary**"), to incorporate this Agreement into a Notarial deed, and to take all necessary actions on the Pledgee's behalf for the purposes of effecting such incorporation.

#### **Additional security**

**The Pledge constituted by this Agreement is in addition to and is not in any way prejudiced or affected by any other security now or subsequently held by the Pledgees for any of the Secured Claims. The powers conferred on the Pledgees by this Agreement in relation to the Secured Claims and the Secured Quota shall be in addition to and not in substitution for the rights conferred on the Pledgees by the laws of Hungary except in so far as they are expressly excluded in this Agreement and, where there is any ambiguity or conflict between such rights contained in any such laws of Hungary and those conferred by this Agreement, then the terms of this Agreement shall, to the extent permitted by such laws of Hungary, prevail.**

#### **Exercise of ownership rights**

**Subject to the terms and conditions set forth in the Credit Facility Agreement, this Agreement and applicable law, the Pledgor shall be entitled to exercise its ownership rights in respect of the Secured Quota in accordance with applicable law until such time as the Pledge shall be enforced by the Pledgee in accordance with the terms of this Agreement, provided that upon the serving of a Default Notice to the Pledgor: (i) the Company shall pay any and all dividends or distributions which are declared and payable (including unpaid distributions accrued prior to the date of receipt of such notice) with respect to the Secured Quota to the Pledgee, and (ii) the Pledgor shall cast its vote attaching to the Secured Quota strictly in accordance with the Pledgee's, instructions, which instructions to Pledgor shall timely seek, and the Pledgor shall not cast any votes attaching to the Secured Quota without first seeking and receiving the Pledgee's, instructions.**



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#### Debts and obligations relating to the Secured Quota

The Pledgees shall not assume or be liable for any debts or obligations of the Pledgor or the Company in connection with the Secured Quota and the Pledgor and the Company hereby undertake to ensure that all such debts and obligations are at all times fully paid and satisfied in accordance with the constitutional documents of the Company and Hungarian law, both prior to and following any Event of Default. In the event that the Pledgor or the Company fails to comply with any of the above obligations, the Pledgor and the Company shall, in addition to their other respective obligations, indemnify the Pledgee against all losses, liabilities, damages, costs, fees and expenses suffered or incurred by the Pledgee as a result of such failure. If the Pledgee performs any of the obligations of the Pledgor or the Company set forth in this Clause 2.5 in the place of the Pledgor or the Company, as the case may be, the Pledgor and the Company shall bear all costs and expenses incurred in connection with such performance, and the Pledgor and the Company shall indemnify the Pledgee against all losses, liabilities, damages, fees, costs and expenses suffered or reasonably incurred by the Pledgee in connection therewith. In such an event, the Pledgor shall have the right to inform the Pledgee about the proposed optimal way of complying with these obligations and the Pledgee will consider it, acting reasonably.

#### Protection of Pledge

The Pledgee shall be entitled at any time if justifiable grounds exist to take any reasonable action necessary for the purposes of perfecting and protecting the Pledge constituted by this Agreement. The Pledgor hereby agree to indemnify the Pledgee on demand against all losses, liabilities, damages, fees, costs and expenses suffered or reasonably incurred by the Pledgee in the perfection or protection or attempted perfection or protection of the Pledge constituted by this Agreement.



#### Assignment, Continuing Security

- (a) The Parties agree that any assignee becoming a party to the Credit Facility Agreement pursuant to Section 13([*Changes to Parties*]) of the Credit Facility Agreement as a Lender or any other person otherwise becoming a party to the Credit Facility Agreement as an assignee or transferee or successor of the Lender shall thereupon become entitled to the benefit of this Agreement and the security established hereunder as if such assignee or person had originally been and had been named as a party to this Agreement.
- (b) The Pledge constituted by this Agreement shall:
  - (i) be a continuing security for the due payment, satisfaction and discharge in full of the Secured Claims and such security shall not be considered as satisfied or discharged or prejudiced by any intermediate payment, satisfaction or settlement of any part of the Secured Claims or any other matter or thing whatsoever; and
  - (ii) not be prejudiced by any time or indulgence granted to any person, or any abstention or delay by the Pledgee in perfecting or enforcing any security, guarantee, right or remedy whatsoever.

#### ENTRY INTO EFFECT AND TERMINATION OF pledge

##### Entry into effect

This Agreement and the Pledge established hereunder shall enter into full force and effect on the date when the BPKO Quota Pledge Agreement and the ING Quota Pledge Agreement had been registered with the relevant Court of Registration having jurisdiction over the Company in favor of each of BPKO S.A and ING BANK N.V. LONDON BRANCH, respectively.

##### Termination and release

The Pledge established pursuant to this Agreement shall be terminated and released upon the occurrence of the earlier of the following conditions:

- (a) the full repayment of the Secured Claims in accordance with the terms of the Credit Facility Agreement and the other Finance Documents; or
- (b) the enforcement of the charge and the exercise of all remedies available to the Pledgee under the terms of this Agreement and applicable law in connection with such enforcement.

Upon the termination and release of the Pledge, the Pledgee shall authorise the Pledgor in writing to: (i) delete the references to the Pledge from the company register, maintained by the Court of Registration, having jurisdiction over the Company within ten (10) Business Days following receipt of a written request to do so by the Pledgors.



## REPRESENTATIONS AND WARRANTIES

### Representations and warranties

#### THE PLEDGOR HEREBY REPRESENTS AND WARRANTS TO THE PLEDGEE THAT:

- (a) it has exclusive ownership of the Secured Quota attributed to it in Schedule 1 (*Secured Quota*), free and clear of all Encumbrances (save all Permitted Security, the BPKO Quota Pledge Agreement and the ING Quota Pledge Agreement), and no third party has any rights whatsoever in connection with such Secured Quota;
- (b) it has not reserved a priority ranking in the company register, maintained by the Court of Registration, having jurisdiction over the Company in respect of the Secured Quota attributed to it in Schedule 1 (*Secured Quota*) (as regulated by Sections 262(4), 262(5) and 264(2) of the *Civil Code*);
- (c) other than as disclosed to the Pledgee in writing, and to the best of its knowledge and belief no litigation, arbitration or administrative proceedings of or before any court, arbitration tribunal or agency which, if adversely determined, would reasonably be expected to materially and adversely effect the value of the Secured Quota have been started or (to the best of its knowledge and belief) threatened (if capable of having a Material Adverse Effect) against it or in respect of the Secured Quota; and
- (d) the Pledge granted by the Pledgor shall, upon the execution of this Agreement, constitute a first-ranking charge over each of the Secured Quota, *pari passu* with the first ranking pledges established on the same Secured Quota by signing (i) the BPKO Quota Pledge Agreement with BPKO S.A. and (ii) the ING Quota Pledge Agreement with ING BANK N.V. LONDON BRANCH.

### Repetition of representations and warranties

The representations and warranties set forth in Clause 4.1 (*Representations and warranties*) are made by the Pledgor and the Company by reference to the facts and circumstances then existing on the date of the Utilization Request and on the first day of each Interest Period.

## COVENANTS AND UNDERTAKINGS

### Notification of claims

The Pledgor and the Company shall immediately notify the Pledgee in writing upon becoming aware of any pending or (to the best of its knowledge and belief) threatened (if capable of having a Material Adverse Effect) [claims, actions or proceedings before any court, arbitration tribunal or administrative authority in connection with the Secured Quota which claim action or proceeding would reasonably be expected to materially adversely effect the value of the Secured Quota.





#### Adverse events

The Pledgor and the Company shall immediately notify the Pledgee in writing of any event or circumstances which would reasonably be expected to materially adversely effect the value of the Secured Quota or the Company.

#### Prohibition against Encumbrances

The Pledgor shall not create nor allow to subsist any encumbrance whatsoever against the Secured Quota (save Permitted Securities, including the BPKO Quota Pledge Agreement and the ING Quota Pledge Agreement) and shall not sell, transfer, or otherwise dispose of the Secured Quota in favour of any person.

#### Voting rights

Subject to Clause 2.4 (*Exercise of ownership rights*), the Pledgor shall exercise its voting rights attaching to the Secured Quota in a manner consistent with the interests of the Pledgees. In particular, and unless agreed otherwise by the Pledgees, BPKO S.A. and ING BANK N.V. LONDON BRANCH, acting unanimously, the Pledgor shall not propose, and shall cast the votes attaching to the Secured Quota against any proposal for, the winding-up, liquidation or merger of the Company or any other action or omission which is liable to result in a change of the rights attaching to the Secured Quota, namely an increase of the registered capital of the Company further to which a quota would be issued in favor of any third party.

#### No reduction of registered capital

Save as may be required by mandatory applicable law neither the Pledgor nor the Company shall, without the prior written consent of the Pledgees, BPKO S.A. and ING BANK N.V. LONDON BRANCH, acting unanimously, reduce the Company's registered capital and shall not pass any such resolution, and the Pledgor agrees that it shall not take any action or steps whatsoever to facilitate the reduction of the Company's registered capital without the prior written consent of the Pledgees, BPKO S.A. and ING BANK N.V. LONDON BRANCH, acting unanimously, unless agreed otherwise by the Pledgees, BPKO S.A. and ING BANK N.V. LONDON BRANCH, acting unanimously.

#### EVENTS OF DEFAULT AND RECOURSES

##### Recourses upon Event of Default

- (a) Upon the occurrence of any Event of Default which is continuing, the Pledgees shall have the right to terminate this Agreement with a ten (10) days written notice and - subject to this Section 6.1 (b) - to take all such enforcement actions against the Secured Quota as are permitted by this Agreement or by Hungarian law, and in particular, the Pledgees, in respect of any part or the entire Secured Claims under the Credit Facility Agreement, may - subject to this Section 6.1 (b) - initiate judicial enforcement proceedings against the Secured Quota without litigious court proceedings or judgement.





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- (b) The Parties agree that the Pledges - are entitled to elect to enforce the charge by the means specified below:
- (i) **via court enforcement proceedings (as set out in Section 255 of the *Civil Code*); or**
  - (ii) **together with the Pledgor may, within three (3) months following the date on which the right of enforcement arose, sell the Secured Quota at the price being not less than seventy five per cent (75%) of the market value as determined pursuant to Clause 6.2 (*Determination of the market value of the Secured Quota*) (as set out in Section 257 (1) of the *Civil Code*); or**
  - (iii) **may, within one (1) year following the date when the right of enforcement arose, instruct a Hungarian institution engaged in granting mortgage-backed loans or arranging auctions as its main business to sell all or any of the Secured Quota at a price being not less than seventy five per cent (75%) of the market value as determined pursuant to Clause 6.2 (*Determination of the market value of the Secured Quota*) (as set out in Section 257 (3) of the *Civil Code*). ; or**
  - (iv) **if the Pledgee is engaged in granting mortgage-backed loans under the Hungarian law, they may sell all or any of the Secured Quota under the same terms as set out in sub-paragraph (iii) of paragraph (c) of this Clause 6.1; or**
  - (v) **by any other means prescribed by the applicable laws of Hungary in connection with the enforcement of the charge.**
- (c) The Pledgee shall within 15 (fifteen) days before the sale notify the Pledgor in writing of (i) the method, (ii) the place and (iii) the date of such sale. The Pledgee hereby confirms that it will comply with the provisions of Government Decree 12/2003 (I. 30.), including but not limited to notifying the Pledgor of its intention to sell the Secured Quota, at least 30 (thirty) days before the intended sale.
- (d) For the purposes of this Clause 6.1, the Parties agree that (i) the Parties may at any time during the enforcement process introduce any person who can potentially buy the Secured Quota on the terms set out in this Clause 6.1. and (ii) the Pledgees, together with BPKO S.A. as pledgee under the BPKO Quota Pledge Agreement, shall consider all relevant parameters of the offers (including, but not limited to, the purchase price) submitted by such potential buyers.



### **Determination of the market value of the Secured Quota**

For the purposes of determining the fair market value of the Secured Quota, the Parties and BPKO S.A. shall use the valuation services of an independent appraisal (selected pursuant to the process described below). Such independent appraisal shall be appointed in the following process:

- (a) the Pledgees shall propose four (4) internationally recognized companies having expertise to determine the fair market price of the Secured Quota;
- (b) the Pledgor shall, within five (5) Business Days of receipt of the Pledgees select one of the entities proposed and such selected entity shall be appointed as the independent appraisal; and
- (c) failing the Pledgor to select such independent appraisal within five (5) Business Days of receipt of the above proposal, the Pledgees, may in their sole discretion appoint the independent appraisal from the proposed four (4) internationally recognized companies.

The independent appraisal shall complete the evaluation (including recommendations regarding the sale strategy) and provide copies to both parties within thirty (30) days of its appointment.

### **GENERAL**

#### **Further actions**

**The Pledgor and the Company shall take all further actions, at the Pledgor's and the Company's cost, reasonably requested by the Pledgees, in connection with the creation, perfection, protection and enforcement of the Pledge established hereunder.**

#### **Waiver of claims**

**The Pledgor and the Company hereby waive all claims against the Pledgees for damages suffered by it in connection with the exercise of the Pledgees rights established hereunder, except damages caused by the Pledgees intentionally or by its gross negligence.**

#### **Amendment or modification**

**This Agreement may only be amended or modified by notarial deed duly executed by each of the Parties.**

#### **Severability**

**Should any provision of this Agreement be declared invalid or unenforceable, such declaration shall not affect the validity or enforceability of the other provisions of this Agreement.**



#### Entire agreement

The Parties hereto agree that to the extent that any of the terms contained herein conflict with those of the Credit Facility Agreement and/or the Indenture and/or the Intercreditor Agreement, the provisions of the Credit Facility Agreement and the Indenture, (in case of conflicting rules between these Agreements, to the benefit of the Intercreditor Agreement) shall prevail. By signing this Agreement, the Pledgor confirms that it is fully aware of, and understands and accepts the terms and conditions of the Credit Facility Agreement, the other Finance Documents, the Indenture and the Intercreditor Agreement.

#### Notices

All communications under or in connection with this Agreement must be in writing. The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each party to this Agreement to which any communication or document is to be delivered under or in connection with this Agreement are as follows:

- in case of the Pledgor:

##### **BOLS Sp. z o.o.**

Address: ul. Bokszerska 66 A  
64600 Oborniki, Wielkopolskie, ul. Kowanowska 48.  
Poland  
Tel: + 48 61 297 43 00  
Fax: +48 61 297 43 01  
Attention of: the Chairman of the Management Board

- in case of the Pledges:

##### **FORTIS Bank Polska S.A.**

Address: ul. Suwak 3, in Warsaw  
Poland  
Tel: [PLEASE INSERT INFORMATION]  
Fax: [PLEASE INSERT INFORMATION]  
Attention of: [PLEASE INSERT INFORMATION]

##### **FORTIS BANK AUSTRIA N.V.**

Address: Technologiestrasse 8, 1120 Wien  
Austria  
Tel: [PLEASE INSERT INFORMATION]  
Fax: [PLEASE INSERT INFORMATION]  
Attention of: [PLEASE INSERT INFORMATION]



- in case of the Company:

**BOLS Hungary Italáru-importőr és Forgalmazó Korlátolt Felelősségű Társaság**

1123 Budapest, Alkotás u. 50.

Hungary

Tel: +36 132 52 500

Fax: +36 132 52 501

Attention of: Company's General Manager

or any substitute address, fax number or department or officer as such party may notify to the Pledgee or to the Pledgor with no less than five Business Days' notice.

Any communication or document made or delivered by one party to another in connection with this Agreement will only be effective (i) if by fax, when received in legible form; or (ii) if by letter, when it is delivered to the address of the party and, in case of a letter sent by post, five days after being deposited at a post office in a postage prepaid envelope addressed to the party. If a particular department or officer is specified as a part of a party's address details, the communication must be addressed to that department or officer.

Each communication and document delivered by one party to another in connection with this Agreement must be in English or Polish accompanied by an English translation certified as a true and accurate translation by an officer of the party delivering it.

**Language**

This Agreement has been executed in the English language only. Notwithstanding any translation of this Agreement into the Hungarian language, the English language version shall prevail.

**Governing law**

This Agreement shall be governed by and construed in accordance with the laws of Hungary, as the same may be amended or modified from time to time.

**Costs**

The Pledgor and the Company shall bear all fees, costs, expenses, and taxes relating to this Agreement, including without limitation all fees, costs, expenses and taxes arising from the recording, release or termination of the Pledge.

**Jurisdiction**

4. In case of any legal dispute between the Parties, subject to the applicable rules of competence, the Parties hereto hereby irrevocably submit to the exclusive jurisdiction of the Central District Court of Pest as well as the Metropolitan Court.



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AFTER DUE READING and having understood its content and legal consequences, the Parties have caused this Agreement to be executed and confirm that it is in accordance with their contractual intentions.

**BOLS Sp. z o.o.,**  
as Pledgor

**BOLS Hungary Italáru-importőr és Forgalmazó**  
**Korlátolt Felelősségű Társaság**  
as Company

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

**FORTIS BANK POLSKA S.A.**  
as Pledgee and as Lender and as Security Agent

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:



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FORTIS BANK AUSTRIA N.V.,  
as Pledgee and as Lender

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:



SCHEDULE 1

SECURED QUOTA

Secured Quota	Nominal Value	% of Registered Capital
BOLS Sp. z o.o., as Pledgor (registration number: 00-00-013113, PL-64600 Oborniki, Wielkopolskie, ul. Kowanowska 48)	HUF 91,240,000.00 (ninety one million two hundred and forty thousand Hungarian Forints)	100%



**BPKO S.A. DECLARATION to the**  
Fortis Quota Pledge Agreement  
between Bols Sp. z o.o. and Fortis Bank Polska S.A. and  
Fortis Bank Austria N.V. dated [•], Budapest

Terms and conditions, if not otherwise defined herein, shall have the meaning as set forth in the Quota Pledge Agreement between Bols Sp. z o.o. [•], BOLS Hungary Itálárú-importőr és Forgalmazó Korlátolt Felelősségű Társaság] and Fortis Bank S.A. dated [•], 2007, Budapest.

We the undersigned and duly authorised representatives of BPKO S.A., a bank organized and existing under the laws of the Republic of Poland, with its seat in Warsaw at ul. Grzybowska 53/57, Poland, P.O. Box 1008, entered in the National Court Register (KRS) maintained by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register, Entry No. KRS 14843, tax identification number (NIP): 526-00-06-841, (“**BPKO SA**”), as lender under the Credit Facility Agreement entered into with CAREY Agri International - Poland Sp. z o.o. (“**CAREY Agri**”) on [•], 2007, and as pledgee under the BPKO Quota Pledge Agreement entered into with Bols Sp. z o.o. (“**Bols**”) on [•], 2007, hereby declare that we have read and therefore are fully aware of all terms and conditions of

- (i) the Fortis Quota Pledge Agreement;
- (ii) the ING Quota Pledge Agreement;
- (iv) the Credit Facility Agreement and any and all attached documents thereto,
- (v) the Indenture and any and all attached documents thereto, and
- (vi) the Intercreditor Agreement.

We understand and acknowledge that the Secured Quota shall serve as first ranking collateral to secure our claims and rights under the Credit Facility Agreement and the BPKO Quota Pledge Agreement against CAREY Agri and the Pledgor *pari passu* with the respective claims and rights of (i) Fortis under the Fortis Quota Pledge Agreement, and the Credit Facility Agreement, and (ii) ING BANK N.V. LONDON BRANCH under the ING Quota Pledge Agreement and the Indenture, respectively.





<b>CENTRAL EUROPEAN DIS</b>	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	<b>38634 EX10_31 149</b>	1*
<b>FORM 10-K WITH WRAP</b>			TAM	CLN	PS IFV	1C

We further undertake and acknowledge that pursuant to the respective provisions of the Fortis Quota Pledge Agreement, the BPKO Quota Pledge Agreement and the ING Quota Pledge Agreement, we may enforce our claims against the Secured Quota - in any and all circumstances - pursuant to Section 6. of the BPKO Quota Pledge Agreement and the Fortis Quota Pledge Agreement.

Dated: [•], Budapest

In the name and on behalf of  
BPKO S.A.

---

name:  
title:

---

name:  
title:



CENTRAL EUROPEAN DIS	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	38634 EX10 31 150	1*
FORM 10-K WITH WRAP			TAM	CLN	PS IFV	1C

**ING BANK LONDON BRANCH DECLARATION to the**  
Fortis Quota Pledge Agreement  
between Bols Sp. z o.o. and Fortis Bank Polska S.A. and  
Fortis Bank Austria N.V. dated [●], Budapest

Terms and conditions, if not otherwise defined herein, shall have the meaning as set forth in the Quota Pledge Agreement between Bols Sp. z o.o. [ , BOLS Hungary Itálárú-importőr és Forgalmazó Korlátolt Felelősségű Társaság] and Fortis Bank S.A. dated [●], Budapest.

We the undersigned and duly authorised representatives of ING BANK N.V. LONDON BRANCH, a banking corporation (*naamloze vennootschap*) duly incorporated under the laws of The Netherlands, with registered address at Amstelveenseweg 500, 1081 KL, Amsterdam, The Netherlands, registration no. 33031431, acting through its London Branch, with office address at 60 London Wall, London EC2M 5TQ, United Kingdom and registered in the United Kingdom under number FC010062 (“**ING BANK N.V. LONDON BRANCH**”), as lender under the Indenture Agreement entered into with Central European Distribution Corporation Inc. (“**CEDC**”) on July 25, 2005, and as pledgee under the ING Quota Pledge Agreement entered into with Bols Sp. z o.o. (“**Bols**”) on [●] hereby declare that we have read and therefore are fully aware of all terms and conditions of

- (i) the Fortis Quota Pledge Agreement;
- (ii) the BPKO Quota Pledge Agreement;
- (iv) the Credit Facility Agreement and any and all attached documents thereto;
- (v) the Indenture and any and all attached documents thereto and.
- (vi) the Intercreditor Agreement.

We understand and acknowledge that the Secured Quota shall serve as first ranking collateral to secure our claims and rights under the Indenture and the ING Quota Pledge Agreement against CEDC and the Pledgor *pari passu* with the respective claims and rights of (i) Fortis under the Fortis Quota Pledge Agreement and the Credit Facility Agreement, and (ii) BPKO S.A. under the BPKO Quota Pledge Agreement and the Credit Facility Agreement against the Borrower and the Pledgor, respectively.

We further undertake and acknowledge that pursuant to the respective provisions of the Fortis Quota Pledge Agreement, the BPKO Quota Pledge Agreement and the ING Quota Pledge Agreement, we may enforce our claims against the Secured Quota - in any and all circumstances - pursuant to Section 6. of the ING Quota Pledge Agreement.



CENTRAL EUROPEAN DIS	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	38634 EX10_31 151	1*
FORM 10-K WITH WRAP			TAM	CLN	PS IFV	1C

Dated: [●], Budapest

In the name and on behalf of  
ING BANK N.V. LONDON BRANCH

\_\_\_\_\_  
name:  
title:

\_\_\_\_\_  
name:  
title:



CENTRAL EUROPEAN DIS	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	38634 EX10_31 152	1*
FORM 10-K WITH WRAP			TAM	CLN	PS IFV	1C

Schedule 2.

The Credit Facility Agreement

[attached]



CENTRAL EUROPEAN DIS	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	38634 EX10_31 153	1*
FORM 10-K WITH WRAP			TAM	CLN	PS IFV	1C

Schedule 3.

The Indenture Agreement  
[attached]



CENTRAL EUROPEAN DIS	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	38634 EX10_31 154	1*
FORM 10-K WITH WRAP			TAM	CLN	PS IFV	1C

Schedule 4.

The BPKO Quota Pledge Agreement  
[attached]



CENTRAL EUROPEAN DIS	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	38634 EX10_31 155	1*
FORM 10-K WITH WRAP			TAM	CLN	PS IFV	1C

Schedule 5.

The ING Quota Pledge Agreement  
[attached]

\_\_\_\_\_



<b>CENTRAL EUROPEAN DIS</b>	RR Donnelley ProFile	wcrdoc1 9.9	WCRjanas0in	09-Feb-2008 10:13 EST	<b>38634 EX10_31 156</b>	1*
<b>FORM 10-K WITH WRAP</b>			TAM	CLN	PS IFV	1C

SAMPLE

**AGREEMENT FOR FINANCIAL PLEDGES OVER SHARES  
OF PRZEDSIĘBIORSTWO POLMOS BIAŁYSTOK S.A.**

**dated December 21, 2007**

between

**CAREY AGRI INTERNATIONAL - POLAND SP. Z O.O.  
AS THE PLEDGOR**

and

**FORTIS BANK POLSKA S.A  
FORTIS BANK S.A./NV, AUSTRIAN BRANCH  
BANK POLSKA KASA OPIEKI S.A.  
AS THE PLEDGEEES**





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THIS AGREEMENT is dated December 21, 2007 and made between:

- (1) CAREY AGRI INTERNATIONAL - POLAND SP. Z O.O., with its seat in Warsaw at ul. Bokserska 66a, registered in the Register of Entrepreneurs under number KRS 0000051098 ("**Pledgor**"), duly represented by Przemysław Witas; and
- (2) FORTIS BANK POLSKA S.A., with its registered seat in Warsaw, at ul. Suwak 3, registered in the Register of Entrepreneurs maintained by the National Court Register under number 0000006421, (the "**First Pledgee**"), duly represented by Robert Chudzik and Marta Łoza.
- (3) FORTIS BANK S.A./NV, AUSTRIAN BRANCH, a credit institution organized and existing under the laws of Belgium having its business address at Montagne du Parc 3, B-1000 Brussels, Belgium acting within the scope of business of its Austrian branch, Euro Plaza/D, Technologiestrasse 8, A-1120 Vienna, Austria, FN 263765 of the commercial court Vienna, DVR-Nr. 211 1743 (the "**Second Pledgee**"), duly represented by Robert Chudzik and Marta Łoza.
- (4) BANK POLSKA KASA OPIEKI S.A., with its registered seat in Warsaw, at Grzybowska 53/57, registered in the entrepreneurs register maintained by the National Court Register under number 0000014843, (the "**Third Pledgee**" and together with the First Pledgee, the Second Pledgee jointly as "**Pledgees**"), duly represented by Dieter Lobnig and Agnieszka Wolska.

(each a "**Party**" and jointly the "**Parties**").

**WHEREAS:**

- (a) On the terms of the Facility Agreement (as defined below), the Pledgees have undertaken to make available to the Pledgor a credit facility in the maximum amount of PLN 300,000,000;
- (b) The execution of this Agreement is required as security for all claims of the Pledgees towards the Pledgor under the Facility Agreement.
- (c) On July 25, 2005, Central European Distribution Corporation ("**CEDC**"), a Delaware law corporation, the parent company of the Pledgor, has issued high yield bonds ("**High Yield Bonds**") in the United States of America. In connection with the High Yield Bonds, on July 25, 2005, CEDC entered into an indenture agreement ("**Indenture**") governed by the laws of the State of New York. Pursuant to Clause 11.13 (*Creation of Parallel Debt*) of the Indenture, CEDC has a pecuniary obligation constituting one single obligation under the laws of the State of New York, towards ING Bank N.V., London Branch. Under Section 4.9 of the Indenture, CEDC and its subsidiaries (among others, the Pledgor) are not allowed to pledge their assets in favor of third parties unless they provide a pari passu pledge to secure the High Yield Bonds. The Pledgees and the Pledgor have agreed that the Pledgor will establish a pledge over certain shares of the Company, pledged as a security of the Pledgor's obligations under the Facility Agreement, in order to secure the claim of ING Bank N.V., London Branch, towards CEDC arising under Clause 11.13 (*Creation of Parallel Debt*) of the Indenture, on a pari passu basis.



**IT IS AGREED** as follows:

## **DEFINITIONS AND INTERPRETATION**

### **Definitions**

In this Agreement:

**“Agreement”** means this agreement for financial pledges over shares of Przedsiębiorstwo “POLMOS” Białystok S.A.

**“Business Day”** means a day (other than a Saturday or Sunday or national holidays) on which banks are open for general business in all cities in which Facility Offices of each Lender are located.

**“Civil Code”** means Polish Civil Code of April 23, 1964 (Dz. U. from 1964, No 16 item 93, as amended).

**“Company”** means Przedsiębiorstwo “POLMOS” Białystok S.A., a joint stock company with its seat in Białystok, at Elewatorska 20, registered in the Entrepreneurs Register under number KRS 0000040543.

**“Commercial Companies Code”** means the Commercial Companies Code dated 15 September 2000 (Dz.U. of 2000 No. 94 item 1037, as amended).

**“Event of Default”** has the meaning given to it in the Facility Agreement.

**“Facility Agreement”** means the facility agreement dated 21 December 2007, entered into between the Pledgor, acting as a borrower, and the Lenders, acting as a lenders, under which the Lenders undertaken to make available to the Pledgor a credit facility in the maximum amount of PLN 300,000,000.

**“Facility”** means the term loan facility made available to the Pledgor pursuant to Clause 2.1 (*The Facility*) of the Facility Agreement.

**“Financial Pledge 1”** has the meaning given to it in Clause 2.1 (a) (*Financial Pledges*).

**“Financial Pledge 2”** has the meaning given to it in Clause 2.1 (b) (*Financial Pledges*).

**“Financial Pledge 3”** has the meaning given to it in Clause 2.1 (c) (*Financial Pledges*).

**“Financial Pledges”** means the Financial Pledge 1, the Financial Pledge 2 and the Financial Pledge 3.

**“Indemnifiable Person”** means each of the Pledges and any of their attorneys, agents, directors, management or supervisory board members or employees.

**“Law on Certain Financial Collateral”** means the act on certain financial collateral dated April 2, 2004 (Dz.U. of 2004 No. 871, item 91, as amended);

**“PLN”** means the lawful currency for the time being of the Republic of Poland.

**“Secured Claims 1”** means any and all existing and future pecuniary receivables of the First Pledgee towards the Pledgor under the Facility Agreement in connection with granting the Facility.

**“Secured Claims 2”** means any and all existing and future pecuniary receivables of the Second Pledgee towards the Pledgor under the Facility Agreement in connection with granting the Facility.



“**Secured Claims 3**” means any and all existing and future pecuniary receivables of the Third Pledgee towards the Pledgor under the Facility Agreement in connection with granting the Facility.

“**Secured Claims**” means the Secured Claims 1, the Secured Claims 2 and the Secured Claims 3.

“**Security Interest**” means any ordinary pledge, registered pledge, financial pledge, lien, charge, right of set-off, assignment or transfer by way of security, or any other security interest or any other agreement or arrangement having the effect of conferring security.

“**Security Period**” means the period starting on the date hereof and ending on the date on which all Secured Claims have been unconditionally and irrevocably paid and discharged in full.

“**Shares**” means 4,039,680 (in words: four million thirty nine thousand six hundred eighty) ordinary registered shares in the share capital of the Company, with the nominal value of PLN 10 each, representing 33.95% of the Company’s share capital, held by the Pledgor as of the date of this Agreement.

## Construction

- (a) (a) Unless a contrary indication appears, any reference in this Agreement to:
- a “**person**” includes any person, firm, company, corporation, association or partnership (whether or not having separate legal personality) and includes its legal successors, assignees and transferees;
  - a “**regulation**” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
  - a “**Clause**” or “**Schedule**”, unless the context otherwise requires, is a reference to a clause of or schedule to this Agreement;
  - a provision of law is a reference to that provision as amended or re-enacted; and
  - a time of day is a reference to Warsaw time.
- (b) (b) Section, Clause and Schedule headings are for ease of reference only.
- (c) (c) The recitals and Schedules form an integral part of this Agreement.
- (d) (d) Unless otherwise defined in this Agreement, a term defined in the Facility Agreement has the same meaning when used in this Agreement.

## PLEDGES

### Financial Pledges

- (a) The Pledgor hereby establishes in favour of the First Pledgee a financial pledge over all the Shares in order to secure the Secured Claims 1 (“**Financial Pledge 1**”). As the amount of Secured Claims 1 is not yet determined, the Financial Pledge 1 is being established up to a maximum amount of security equal to PLN 600,000,000 (in words: six hundred million Polish zlotys). The First Pledgee hereby expresses its consent to the establishment of the Financial Pledge 1.



- (b) The Pledgor hereby establishes in favour of the Second Pledgee a financial pledge over all the Shares in order to secure the Secured Claims 2 (“**Financial Pledge 2**”). As the amount of Secured Claims 2 is not yet determined, the Financial Pledge 2 is being established up to a maximum amount of security equal to PLN 600,000,000 (in words: six hundred million). The Second Pledgee hereby expresses its consent to the establishment of the Financial Pledge 2.
- (c) The Pledgor hereby establishes in favour of the Third Pledgee a financial pledge over all the Shares in order to secure the Secured Claims 3 (“**Financial Pledge 3**”). As the amount of Secured Claims 3 is not yet determined, the Financial Pledge 3 is being established up to a maximum amount of security equal to PLN 600,000,000 (in words: six hundred million). The Third Pledgee hereby expresses its consent to the establishment of the Financial Pledge 3.

#### Ranking of Financial Pledges

The Pledgees and the Pledgor hereby agree that each of (i) the Financial Pledge 1, (ii) the Financial Pledge 2, (iii) the Financial Pledge 3 and (iv) the financial pledge over the Shares established as a security of the Pledgor’s obligations towards ING Bank N.V., London Branch under the Indenture shall be ranked *pari passu* and shall have the same priority.

#### NOTIFICATION OF THE COMPANY

##### Notice of Establishment of the Financial Pledges

- (e) The Pledgor shall, within 3 (three) Business Days of the date hereof (at its own cost and expense), send a notice substantially in the form of **Schedule 1** (*Form of Notice of Establishment of the Financial Pledge*) together with a copy of this Agreement to the Company with a copy to the Pledgees.

##### Entries in the Company’s share register

- (f) The Pledgor shall deliver to each of the Pledgees within 5 (five) Business Days of the date hereof a copy of the Company’s share register showing the entries required to be made following receipt of the notice referred to in Clause 3.1 (*Notice of Establishment of the Financial Pledge*).

#### EXPIRATION

##### Expiry

Unless the Parties agree otherwise, the Financial Pledges shall automatically expire and be released upon the earlier of: (i) the expiry of the Security Period or (ii) March 31, 2014.

##### Ineffective Performance

The Pledgees are not obliged to release the Shares from the security established by this Agreement if the satisfaction of the Secured Claims could in their reasonable opinion based on solid and objective arguments be considered as ineffective or invalid under the Polish Bankruptcy and Rehabilitation Law of February 28, 2003 (as amended) or under the Polish Civil Code.



## REPRESENTATIONS AND WARRANTIES

- (a) Being fully aware of the fact that the Pledgees are relying on the representations and warranties set forth below, the Pledgor hereby represents and warrants to the Pledgees that:
- it is a company duly incorporated and existing under the laws of Poland;
- it is the sole owner of 4 039 680 (in words: four million thirty nine thousand six hundred eighty) ordinary registered shares in the share capital of the Company having the form of the document, which been released to the First Pledgee acting (upon receipt of such certificates) on behalf of itself and the Second Pledgee and the Third Pledgee and ING Bank N.V., London Branch, with the nominal value of PLN 10 each, representing 33.95% of the Company's share capital;
- the Shares are fully paid up and there are no Security Interest whatsoever or in respect of the whole or any part of the Shares other than the Security Interest created or permitted to subsist in accordance with the Facility Agreement and the registered pledge and the financial pledge established over the Shares as a security of the Pledgor's obligations towards ING Bank N.V., London Branch under the Indenture;
- it has not sold or otherwise disposed of or agreed to sell or otherwise dispose of the Shares or any of its rights or interests in respect of the Shares or any part thereof except in accordance with this Agreement;
- this Agreement constitutes a valid and legally binding agreement for the establishment of the Financial Pledges enforceable in accordance with its terms;
- it has all necessary power, has taken all necessary corporate action, has obtained all necessary consents and has taken all action necessary or required by the laws and regulations of Poland to enable it to duly execute this Agreement and to duly perform and/or comply with its obligations arising under this Agreement;
- its execution and performance of this Agreement will not violate its statutes, by-laws or other corporate rules, any provisions of law, regulations or any judgment, order or decree of any court, arbitrator or governmental authority or any agreement of any nature binding upon it;
- the obligations expressed to be assumed by it in this Agreement are legal, valid, binding and enforceable;
- no claims, suits, proceedings, arbitration or investigations have been started or (to the best of its knowledge) threatened against it which could adversely affect its ability to perform its obligations under this Agreement;
- the Company's governing documents (i) do not contain a prohibition on voting by proxy at a shareholders' meeting nor any other provisions which might adversely affect the execution and performance of this Agreement;



- (b) The above representations and warranties are made on the date of this Agreement, and will be deemed to be repeated on each date that any representation is made or deemed repeated pursuant to the Facility Agreement.

## PLEDGOR'S UNDERTAKINGS

### Duration

The undertakings in this Clause 6 shall remain in force throughout the entire term of this Agreement.

### Information

- (g) (a) The Pledgor shall promptly provide to the Pledgees all information reasonably requested by them relating to the Shares and shall promptly give notice in writing to the Pledgees of any event (other than a change of law) which might have a material adverse effect on the legality, validity, exercise or enforceability of the Security Interest created hereunder.
- (h) (b) The Pledgor shall provide the Pledgees at any time, upon 2 (two) Business Days' prior request, certified by an authorized signatory on behalf of the Pledgor copy of the valid deposit certificate with respect to the Shares.

### Negative covenants

The Pledgor shall not:

introduce (or permit the introduction of) changes to the Company's governing documents which would be inconsistent with the Pledgees' rights under this Agreement or would result in a breach of the Facility Agreement;

take or omit to take any action (or knowingly permit such action or omission) where that action or omission might be expected to adversely affect the rights of the Pledgees under this Agreement; or

exercise the voting rights in a way that would (i) impair the value of the Shares or (ii) result in breach of any provision of the Facility Agreement and this Agreement or (iii) prejudice the Financial Pledge (iv) adversely affect the rights of the Pledgees resulting from this Agreement, and (v) diminish the proportion of the Shares in the Company's share capital (whether in terms of voting rights or value of the shares).

#### (a) 6.4 Others

- (b) The Pledgor shall:

notify (and ensure that the Company notifies) each of the Pledgees forthwith upon becoming aware that (i) any action is taken or planned to be taken by any party with a view to instigating execution proceedings directed against the Shares, or (ii) execution proceedings directed against the Shares have been instigated.

at the request of the Pledgees, co-operate with them in connection with any filings, consents or approvals of governmental authorities to be made or obtain in connection with the enforcement of the security of the security interest created under this Agreement.



## SHAREHOLDERS' MEETINGS

### Exercise

During the Security Period, the Pledgor shall continue to be entitled to exercise the voting rights attaching to the Shares and any other non-property rights to which the Pledgor is entitled as a shareholder of the Company until the occurrence of an Event of Default. Upon the occurrence of an Event of Default, the Pledgees shall be entitled to attend shareholders meetings and exercise, on behalf of the Pledgor, voting rights attaching to the Shares and any other non-property rights to which the Pledgor is entitled as a shareholder of the Company, including any right to demand the convening of an extraordinary general meeting and right of control pursuant to the relevant provisions of the Commercial Companies Code. The Pledgees shall exercise the voting rights attaching to the Shares and any other rights to which the Pledgor is entitled as a shareholder of the Company after any of e Pledgees delivers a notice to the Pledgor and the Company substantially in the form of **Schedule 3**.

### Power of Attorney

- (i) (a) For the purpose of provisions of Clause 7.1 above, the Pledgor, by way of security, hereby unconditionally and irrevocably grants to:
  - (j) (i) the First Pledgee,
  - (k) (ii) the Second Pledgee, and
  - (l) (iii) the Third Pledgee
- (m) a power of attorney, in the form set out in **Schedule 2** ("Voting Rights Power of Attorney").
- (n) (b) The First Pledgee may exercise its rights resulting from the Voting Rights Power of Attorney in any manner necessary for satisfaction of all or any part of the Secured Claims 1 only if an Event of Default occurs and the First Pledgee has delivered a notice to the Pledgor and the Company substantially in the form of Schedule 3.
- (o) (c) The Third Pledgee may exercise its rights resulting from the Voting Rights Power of Attorney in any manner necessary for satisfaction of all or any part of the Secured Claims 3 only: (A) if an Event of Default occurs and the Third Pledgee has delivered a notice to the Pledgor and the Company substantially in the form of **Schedule 3** and (B) the First Pledgee may not exercise its rights under the Voting Rights Power of Attorney pursuant to point (b) above or it fails to do so.
- (p) (d) The Second Pledgee may exercise its rights resulting from the Voting Rights Power of Attorney in any manner necessary for satisfaction of all or any part of the Secured Claims 2 only in case: (A) if an Event of Default occurs and the Second Pledgee has delivered a notice to the Pledgor and the Company substantially in the form of **Schedule 3** and (B) the First Pledgee and the Second Pledgee may not exercise their rights under the Voting Rights Power of Attorney pursuant to point (b) and (c) above or they fail to do so.





- (q) (e) Subject to points from (b) to (d) above, the Pledgee shall inform other Pledgees on its intention to exercise its rights resulting from the Voting Power of Attorney at least 3 Business Days prior to the date of general shareholders' meeting.
- (r) (f) Each Voting Rights Power of Attorney is irrevocable during the Security Period and shall expire upon termination of the relevant Financial Pledge and the registered pledge established over the Shares in favour of the First Pledgee acting as the administration of the pledge on behalf of the Pledgees pursuant to the agreement entered into on or about the date of this Agreement.

## ENFORCEMENT

### Enforcement of the Pledges

- (a) Upon the occurrence of an Event of Default, in its absolute discretion and subject to the provisions of the Law on Certain Financial Collateral or at any time hereafter enforce its rights (as its discretion) by any of the methods specified in the Law on Certain Financial Collateral in order to satisfy the Secured Claims and in particular by:
  - (i) selling the Shares;
  - (ii) taking title to the Sharesin accordance with Article 10 of the Law on Certain Financial Collateral (subject to obtaining all required regulatory consents or notifications, if any).
- (b) The Pledgee shall notify the Pledgor on the method of enforcement of the Financial Pledges selected by a given Pledgee. If the Pledgees intend to select a different method of enforcement, they shall deliver a new notice specifying such method.

### Power of Attorney

In order to enable the Pledgees to enforce the Financial Pledges in any of the methods specified in Clause 9.1 (a), the Pledgor grants to:

- (i) the First Pledgee a power of attorney authorizing the First Pledgee to sell the Shares - in case the First Pledgee shall satisfy the Secured Claims through sale of the Shares;
- (ii) the Second Pledgee a power of attorney authorizing the Second Pledgee to sell the Shares - in case the Second Pledgee shall satisfy the Secured Claims through sale of the Shares;
- (iii) the Third Pledgee a power of attorney authorizing the Third Pledgee to sell the Shares - in case the Third Pledgee shall satisfy the Secured Claims through sale of the Shares.

### Value of the Shares

Pursuant to Article 11 of the Law on Certain Financial Collateral, the value of all Shares, for the purpose of taking title to such Shares by the Pledgees shall be equal to PLN 1000.

## APPLICATION OF PROCEEDS

The value of Shares set forth in Clause 8.2 (*Value of the Shares*) or the net proceeds of sale of the Shares, as the case may be, which may be applied towards satisfaction of the Secured Claims shall be applied



towards their satisfaction in the manner specified in the Facility Agreement. If the value of the Shares, or as the case may be, the net proceeds of sale of the Shares exceed the amount of Secured Claims, the surplus shall be paid to the Pledgor within 14 days following the date on which the Pledgees receive those net proceeds or takes title to Shares.

## POWER OF ATTORNEY FOR ENFORCEMENT

### Grant of the Power of Attorney

The Pledgor, by way of security, hereby irrevocably appoints each of Pledgees as its attorney (with full power of substitution) for the purpose of taking any action that the Pledgor is obliged to take under this Agreement. The Pledgor undertakes to ratify and confirm any action that the Pledgees or their substitutes take under the appointment in this Clause 10.1. The attorney may also represent other parties to the agreements, documents and other legal actions to be executed and/or undertaken under the above power of attorney. The Pledgor renounces its right to revoke this power of attorney without the written consent of the Pledgees. The Pledgor declares that its renunciation of the right of revocation is justified by the nature of the legal relationship created by the Agreement, on which this power of attorney is based.

### 11.2 Confirmation of the Power of Attorney

The Pledgor shall produce and execute at the request of the Pledgees all documents necessary to evidence or confirm the grant of the power of attorney under Clause 10.1 (*Grant of Power of Attorney*) including, but not limited to, re-execution of that power of attorney in notarial form, if necessary.

## FURTHER ASSURANCES

The Pledgor shall at its own cost execute any further or additional documents and take whatever action the Pledgees may require for perfecting or protecting the security constituted or evidenced or purported to be constituted or evidenced by this Agreement, or facilitating the exercise of any right or power exercisable by the Pledgees in accordance with this Agreement and shall not do, or consent to, anything which could be expected to prejudice the validity or enforceability of this Agreement.

## INDEMNIFICATION

The Pledgor agrees to indemnify each Indemnifiable Person against and release and protect each Indemnifiable Person from any loss, claim, liability, expense, damages (including fees and disbursements of legal counsel), taxes and stamp duty which may arise from the Pledgor's failure to perform under this Agreement in accordance with its terms, provided that the liability of the Pledgor under this Clause shall arise only with respect to such events and circumstances for which he is responsible.

## EXCLUSION OF SUBROGATION

To the extent permitted by law, the Pledgor undertakes not to perform any right of subrogation that might arise if the Pledgees enforce their security under this Agreement until the satisfaction of the Secured Claims. The Pledgor shall immediately pay or transfer to the Pledgees any payment or distribution it receives by virtue of any subrogation.



## COSTS

### Court Fees and Other Costs

Each party shall pay its own costs incurred in connection with negotiation, preparation of this Agreement.

### Legal Costs

The Pledgor shall pay all costs incurred by the Pledgees in exercising their rights under this Agreement (in particular, in connection with the enforcement of the Financial Pledges) including, but not limited to, the cost of legal advisers to the Pledgees and the costs of legal proceedings.

### Reimbursement

If any of the payments referred to in Clause 14.2 are made by the Pledgees, the Pledgor shall reimburse the Pledgees for all such costs promptly after receipt from the Pledgees of a request for reimbursement of costs together with a copy of an invoice, acknowledgement of receipt or other document reasonably evidencing payment by the Pledgees of such costs.

## NOTICES

The provisions of Clause 15.3 (*Notices*) of the Facility Agreement are incorporated and apply to this Agreement as if set out in full herein, mutatis mutandis.

## AMENDMENTS

Any amendment to this Agreement shall be null and void unless made in writing and signed by both Parties.

## LANGUAGE

This Agreement is executed in four copies in the English language and four in the Polish language, one copy of each language version for each Party. In the event of any discrepancies between the language versions, the Polish version shall prevail.

## SCOPE OF SECURITY

Each of the security interests created hereunder is a continuing security and extends to the ultimate balance of the Secured Claims and remains in force notwithstanding any intermediate payment or increase or amendment of the Secured Claims or an effective transfer by the Pledgees of any of their rights and claims under the Facility Agreement to any third party.

## ASSIGNMENT

The Pledgor undertakes not to assign or transfer any of its rights, benefits and obligations under this Agreement without written consent of the Pledgees.

## GOVERNING LAW

This Agreement shall be governed by and construed in accordance with Polish law.



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DISPUTE RESOLUTION

The Parties to this Agreement irrevocably agree that any disputes which may arise in connection with this Agreement or which are related to its violation, termination or nullity will be finally settled by courts of Poland competent for the registered office of the Facility Agent.



**Schedule 1**  
**Form of the Notice to the Company of the Establishment of the Financial Pledges**

To: Przedsiębiorstwo Polmos Białystok S.A. **“Company”**

From: Carey Agri International - Poland Sp. z o.o. **“Pledgor”**

Copy to: Fortis Bank Polska S.A., Fortis Bank S.A./NV, Austrian Branch, Bank Polska Kasa Opieki S.A. **“Pledgees”**

Date: December 21, 2007

Subject: Establishment of financial pledges under an agreement between the Pledgees and the Pledgor dated December 21, 2007 (**“Agreement”**).

Attachment: We attach a signed copy of the Agreement. (Expressions defined in the Agreement have the same meaning when used in this notice).

Dear Sirs,

We hereby give you notice that, under the Agreement, we have pledged the Shares by way of Financial Pledges.

We hereby instruct you to:

- disclose the establishment of the Financial Pledges and the Pledgees as beneficiary of any particular Financial Pledge in your share register pursuant to Article 341 of the CCC;
- provide us within 3 Business Days with a copy of the Company's share register showing the above requested entry;

We also inform you that we have granted an irrevocable power of attorney to the Pledgees (**“Voting Rights Power of Attorney”**) to exercise all rights that we have as a shareholder in your company, including the Voting Rights. The Pledgees is authorised to use the Voting Rights Power of Attorney upon delivery to you of a notice to that effect.

This notice is governed by Polish law.



## Schedule 2

### Form of Voting Rights Power of Attorney

Pursuant to Clause 7.2 (a) of the Agreement for Financial Pledges over Shares of Przedsiębiorstwo “POLMOS” Białystok S.A. dated December 21, 2007 (the “**Financial Pledges Agreement**”), [•], acting in the name and on behalf of **Carey Agri International - Poland Sp. z o.o.** with its seat at Warsaw, ul. Bokserka 66a, registered in the entrepreneurs register maintained by the National Court Register, under KRS number 0000051098 (the “**Company**”), duly authorized to represent the Company, hereby unconditionally and irrevocably grant this power of attorney to:

●, with its registered seat in [ ], at [ ], registered in the commercial register maintained by [ ] in [ ] under number [ ], (the “**Bank**”),

with full power of substitution to:

- (i) exercise or abstain from exercising, the voting rights attached to 4,039,680 (in words: four million thirty nine hundred thousand six hundred eighty) ordinary registered shares in the share capital of Przedsiębiorstwo “POLMOS” Białystok S.A. (“**Polmos**”), with the nominal value of PLN 10 each, representing 33.95% of the Polmos’ share capital (the “**Shares**”), at the general meeting as the Bank thinks fit;
- (ii) exercise any other corporate rights under Polish law or under the Statutes of Polmos and subject to the security created by the Financial Pledges Agreement as the Bank thinks fit and in particular, but without limitation to exercise:
  - the right to demand that the management board of Polmos convenes an extraordinary or ordinary general meeting; and
  - the right to give any consent or authorisation that is required under Polish law from the Company as a shareholder of the Bank.

The Bank may exercise this power of attorney only upon occurrence of an Event of Default (as this term is defined in the Financial Pledges Agreement) and upon delivery to the Company and Polmos notification on an Event of Default.

The Company hereby declares that everything that the Bank does under this power of attorney is valid and effective as though done by the Company itself.

The Company renounces its right to revoke this power of attorney without the written consent of the Bank. The Company declares that its renunciation of the right of revocation is justified by the nature of the legal relationship created by the Financial Pledges Agreement, on which this power of attorney is based.

This power of attorney is governed by Polish law.

This power of attorney is executed in Polish and in English. In if there is any discrepancy between the language versions, the Polish version is binding.



**Schedule 3**

**Notice to the Pledgor and the Company on the Exercise of Voting Rights in Event of Default**

To: Przedsiębiorstwo Polmos Białystok S.A. (“**Company**”)  
Carey Agri International - Poland Sp. z o.o. (“**Pledgor**”)

From: [●] (“**First Pledgee/Second Pledgee/Third Pledgee**”)

Date: [ ]

Subject: Exercise of Voting Rights under the Agreement for Financial Pledges over Shares of Przedsiębiorstwo “POLMOS” Białystok S.A. between, among others, [First Pledgee/Second Pledgee/Third Pledgee] the Pledgor dated December 21, 2007 (“**Agreement**”).

Dear Sirs,

We hereby give you notice that an Event of Default is continuing and as from the date of this notice we intend to exercise the voting rights attached to the Sharers in accordance with Clause 7 of the Agreement.

Expressions defined in the Agreement have the same meaning when used in this notice.

This notice is governed by Polish law.

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by: [ ]

position: [ ]

in the name and on behalf of [●]



IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorised representatives on the day as first written above.

**Carey Agri International - Poland Sp. z o.o.**

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Fortis Bank Polska S.A.**

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Fortis Bank S.A./NV, Austrian Branch**

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Bank Polska Kasa Opieki S.A.**

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_





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Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**AGREEMENT FOR REGISTERED PLEDGE OVER SHARES  
OF PRZEDSIĘBIORSTWO POLMOS BIAŁYSTOK S.A.**

**dated December 21, 2007**

between

**CAREY AGRI INTERNATIONAL - POLAND SP. Z O.O.  
AS THE PLEDGOR**

and

**FORTIS BANK POLSKA S.A.  
AS THE PLEDGE ADMINISTRATOR**



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THIS AGREEMENT is dated December 21, 2007 and made between:

- (5) **Carey Agri International - Poland Sp. z o.o.**, with its seat in Warsaw, at ul. Boksterska 66a, registered in the register of entrepreneurs of the National Court Registry under the number KRS 51098 ("**Pledgor**"), duly represented by \_\_\_\_\_; and
- (6) **Fortis Bank Polska S.A.**, with its registered seat in Warsaw, at ul. Suwak 3, registered in the commercial register maintained by National Court Register in Warsaw under number 0000006421, (the "**Pledge Administrator**"), duly represented by \_\_\_\_\_
- (each a "**Party**" and jointly the "**Parties**").

**WHEREAS:**

- (d) On the terms of the Facility Agreement (as defined below), the Lenders (as defined below) have undertaken to make available to the Pledgor a credit facility in the maximum amount of PLN 300,000,000;
- (e) The Pledge Administrator has been appointed to act as the pledge administrator in relation to the Registered Pledge (as defined below) pursuant to Clause 14.1.1 (*Appointment of the Facility Agent and the Security Agent*) and Schedule 9 of the Facility Agreement (as defined below).
- (f) The execution of this Agreement is required as security for all claims of the Lenders towards the Pledgor under the Facility Agreement.
- (g) On July 25, 2005, Central European Distribution Corporation ("**CEDC**"), a Delaware law corporation, the parent company of the Pledgor, has issued high yield bonds ("**High Yield Bonds**") in the United States of America. In connection with the High Yield Bonds, on July 25, 2005, CEDC entered into an indenture agreement ("**Indenture**") governed by the laws of the State of New York. Pursuant to Clause 11.13 (*Creation of Parallel Debt*) of the Indenture, CEDC has a pecuniary obligation constituting one single obligation under the laws of the State of New York, towards ING Bank N.V., London Branch. Under Section 4.9 of the Indenture, CEDC and its subsidiaries (among others, the Pledgor) are not allowed to pledge their assets in favor of third parties unless they provide a pari passu pledge to secure the High Yield Bonds. The Pledge Administrator and the Pledgor have agreed that the Pledgor will establish a pledge over certain shares of the Company, pledged as a security of the Pledgor's obligations under the Facility Agreement, in order to secure the claim of ING Bank N.V., London Branch, towards CEDC arising under Clause 11.13 (*Creation of Parallel Debt*) of the Indenture, on a pari passu basis.



**IT IS AGREED** as follows:

## **DEFINITIONS AND INTERPRETATION**

### **Definitions**

In this Agreement:

“**Agreement**” means this agreement for registered pledge over shares of Przedsiębiorstwo “POLMOS” Białystok S.A.

“**Application**” means an application for registration of the registered pledge established hereunder in the register of pledges kept by the relevant court.

“**Bank Polska Kasa Opieki S.A.**” means a bank organized and existing under the laws of the Republic of Poland, with its seat in Warsaw, at Grzybowska 53/57 entered into the register of entrepreneurs of the National Court Register under no. KRS 0000014843.

“**Business Day**” means a day (other than a Saturday or Sunday or national holidays) on which banks are open for general business in all cities in which Facility Offices of each Lender are located.

“**Catalogue**” means the catalog of method of description of the objects of pledge, which constitutes appendix no. 1 to the Ordinance of the Ministry of Justice dated October 15, 1997 on detail organization and methods of maintenance of the register of pledges (Dz. U of 1997 No. 134 item 892, as amended);

“**Civil Code**” means Polish Civil Code of April 23, 1964 (Dz. U. from 1964, No 16 item 93, as amended).

“**Company**” means Przedsiębiorstwo “POLMOS” Białystok S.A., a joint stock company with its seat in Białystok, at Elewatorska 20, registered in the Entrepreneurs Register under number KRS 0000040543.

“**Commercial Companies Code**” means the Commercial Companies Code dated 15 September 2000 (Dz.U. of 2000 No. 94 item 1037, as amended).

“**Distributions**” means dividends and other proceeds (including, but not limited to, the proceeds of redemptions or liquidation) to be paid to shareholders with respect to the Shares held by them for each financial year of the Company until and including the year in which the Security Period expires.

“**Enforcement Notice**” has the meaning given to it in Clause 11.1.(a) (*Enforcement*) of this Agreement.

“**Event of Default**” has the meaning given to it in the Facility Agreement.

“**Facility Agreement**” means the facility agreement dated 21 December 2007, entered into between the Pledgor, acting as a borrower, and the Lenders, acting as a lenders, under which the



Lenders undertaken to make available to the Pledgor a credit facility in the maximum amount of PLN 300,000,000.

“**Facility**” means the term loan facility made available to the Pledgor pursuant to Clause 2.1 (*The Facility*) of the Facility Agreement.

“**Fortis Bank S.A./NV, Austrian Branch**” means a bank organized and existing under the laws of Austria, with its registered office at Technologiessraste 8, 1120 Wien, Austria entered into Commerce Register maintained by the Republic of Austria, under No. FN 263765

“**Indemnifiable Person**” means the Pledge Administrator and any of its attorneys, agents, directors, management or supervisory board members or employees.

“**Lenders**” means the Pledge Administrator, Bank Polska Kasa Opieki S.A. and Fortis Bank S.A./NV, Austrian Branch.;

“**Pledge Law**” means the act on registered pledges and the pledge register dated 6 December 1996 (Dz.U. of 1996 No. 149 item 703, as amended).

“**PLN**” means the lawful currency for the time being of the Republic of Poland.

“**Registered Pledge**” has the meaning given to it in Clause 2.1 (*Registered Pledge*).

“**Secured Claims**” means any and all pecuniary receivables of the Lenders, whether present or future, actual or contingent, towards the Pledgor for payment of the Facility together with the interest, costs, fees, interest for the overdue indebtedness, enforcement costs and any other costs and payments, which should be paid to the Lenders under the Facility Agreement in connection with granting the Facility;

“**Security Interest**” means any ordinary pledge, registered pledge, financial pledge, lien, charge, right of set-off, assignment or transfer by way of security, or any other security interest or any other agreement or arrangement having the effect of conferring security.

“**Security Period**” means the period starting on the date hereof and ending on the date on which all Secured Claims have been unconditionally and irrevocably paid and discharged in full.

“**Shares**” means 4 039 680 (in words: four million thirty nine thousand six hundred eighty) ordinary registered shares in the share capital of the Company, with the nominal value of PLN 10 each, representing 33,95% of the Company’s share capital, held by the Pledgor as of the date of this Agreement.

“**Statutes**” means the statutes (*statut*) of the Company as amended from time to time;



“**Voting Rights**” means the right to exercise (personally or by proxy) the voting rights and any other corporate rights under Polish law or under the Statutes attached to the Shares or any of the Shares.

## Construction

- (s) Unless a contrary indication appears, any reference in this Agreement to:
  - a “**person**” includes any person, firm, company, corporation, association or partnership (whether or not having separate legal personality) and includes its legal successors, assignees and transferees;
  - a “**regulation**” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
  - a “**Clause**” or “**Schedule**”, unless the context otherwise requires, is a reference to a clause of or schedule to this Agreement;
  - a provision of law is a reference to that provision as amended or re-enacted; and
  - a time of day is a reference to Warsaw time.
- (t) Section, Clause and Schedule headings are for ease of reference only.
- (u) The recitals and Schedules form an integral part of this Agreement.
- (v) Unless otherwise defined in this Agreement, a term defined in the Facility Agreement has the same meaning when used in this Agreement.

## PLEDGE

### Registered Pledge

- (a) In order to secure the Secured Claims, the Pledgor hereby establishes in favour of the Pledge Administrator, a first ranking registered pledge of all the Shares in order to secure the Secured Claims (“**Registered Pledge**”).
- (b) As the amount of Secured Claims is not yet determined, Registered Pledge is being established up to the maximum amount of security equal to PLN 600,000,000 (in words: six hundred million zloty).
- (c) Pledgor and Pledge Administrator acknowledge that Registered Pledge is to rank pari passu with the registered pledge established for the benefit of ING Bank N.V., London Branch in order to secure the claims under the Indenture.



## Consent

The Pledge Administrator hereby expresses its consent for establishment of the Registered Pledge.

## REGISTRATION OF THE REGISTERED PLEDGE

- (w) (a) The Pledgor shall file or procure the filing of, at its own cost, within 5 (five) business days from the date hereof, the Application to the relevant court. The Pledgor shall, within 2 (two) business day from the date of filing of the Application, deliver to the Pledge Administrator a copy of the Application, with evidence of its receipt by the aforementioned court together with evidence of payment of the registration fee.
- (x) (b) Application shall be submitted on the official form. The Shares shall be classified as “*shares non-dematerialized*” in accordance with Catalogue (item F4 of the Catalogue).
- (y) (c) Until the Registered Pledge is finally and validly entered in the register of pledges, the Pledgor: (i) may not withdraw the Application which has been filed, (ii) must take any action which may be required or necessary in order to register the Registered Pledge in the register of pledges and in particular must rectify any formal defect and any mistake in the Application at its own cost and expense and within any applicable time limit. On receipt of the decision of the relevant court on registration of the Registered Pledge in the register of pledges, the Pledgor must verify that the Registered Pledge was registered in accordance with this Agreement and the application and, if necessary, at its own cost and expense and within any applicable time limit, take any action permitted by law to rectify any mistake or inconsistency in the decision of the court.
- (z) (d) The Pledgor shall file or procure the filing of the Application simultaneously with the application for registration of the registered pledge established for the benefit of ING Bank N.V., London Branch in order to secure the claims under the Indenture.

## NOTIFICATIONS

### Notice of Establishment of the Registered Pledge

- (aa) The Pledgor shall, within 3 (three) Business Days of the date hereof (at its own cost and expense), send a notice substantially in the form of **Schedule 1** (*Form of Notice of Establishment of the Registered Pledge*) together with a copy of this Agreement to the Company with a copy to the Pledge Administrator.





### Notice of Registration of the Registered Pledge

- (bb) The Pledgor shall, within 3 (three) Business Days following the date of receipt by it of the decision of the competent district court on registration of the Registered Pledge in the register of pledges, deliver a notice to the Company, with a copy to the Pledge Administrator, substantially in the form set out in **Schedule 2** (*Form of notices of the Registration of the Registered Pledge*) attaching the court decision.

### ENTRIES IN THE COMPANY'S SHARE REGISTER

#### Notice of Establishment of the Registered Pledge

The Pledgor shall deliver to the Pledge Administrator within 5 (five) Business Days of the date of receipt by it of the decision of the competent district court on registration of the Registered Pledge in the register of pledges (at its own costs and expense) a copy of the Company's share register showing the entries required to be made following receipt of the notice referred to in Clause 4.2 (*Notice of Registration of the Registered Pledge*).

### GENERAL MEETINGS AND VOTING RIGHTS

#### General Meetings and Records

- (a) The Pledgor shall ensure that the Pledge Administrator:
- (i) receives a copy of each notice (and the corresponding agenda) convening a general meetings at least 7 (seven) Business Days prior to the date of the meeting, unless the Pledge Administrator and the Company agree differently;
  - (ii) receives a copy of each resolution which has been passed during a general meeting which has not been formally convened at least 7 (seven) Business Days following the date of such general meeting, unless the Pledge Administrator and the Company agree differently;
  - (iii) is allowed entry (as an observer) to each general meeting; and
  - (iv) is allowed at any time on reasonable notice to inspect (A) the minutes of any general meeting of and (B) the share register of the Company.

#### Exercise of Voting Rights by Pledge Administrator

The Pledge Administrator is entitled to exercise the Voting Rights pursuant to art. 340 of Commercial Companies Code if an Event of Default occurs and the Pledge Administrator has delivered a notice to the Pledgor and the Company substantially in the form of **Schedule 3**. The Pledge Administrator shall exercise the voting rights attached to the Shares only if the Pledge Administrator delivers a notice to the Pledgor or the Company in the form of **Schedule 3**.

#### Exercise of Voting Rights by the Pledgor

During the Security Period, the Pledgor shall continue to be entitled to exercise the Voting Rights until the occurrence of an Event of Default and delivery to the Company and the Pledgor a notice substantially in the



form of **Schedule 3**. The Pledgor shall not exercise the Voting Rights in a way that would (i) impair the value of the Shares or (ii) result in breach of any provision of the Facility Agreement and this Agreement or (iii) prejudice the Registered Pledge (iv) adversely affect the rights of the Pledge Administrator resulting from this Agreement, and (v) diminish the proportion of the Shares in the Company's share capital (whether in terms of voting rights or value of the shares).

## EXPIRATION

### Expiry

Unless the Parties agree otherwise and subject to provisions of Clause 7.3 (*Ineffective Performance*), the Registered Pledge shall expire and be released upon the expiry of the Security Period.

### Release

After the expiry of the Registered Pledge in accordance with this Agreement and upon the Pledgor's request and at its cost, the Pledge Administrator will execute such documents and/or certificates as are necessary to delete the Registered Pledge from the register of pledges.

### Ineffective Performance

The Pledge Administrator is not obliged to release the Shares from the security established by this Agreement if the satisfaction of the Secured Claims could in his reasonable opinion based on solid and objective arguments be considered as ineffective or invalid under the Polish Bankruptcy and Rehabilitation Law of February 28, 2003 (as amended) or under the Polish Civil Code.

## REPRESENTATIONS AND WARRANTIES

- (a) Being fully aware of the fact that the Pledge Administrator is relying on the representations and warranties set forth below, the Pledgor hereby represents and warrants to the Pledge Administrator that:

it is a company duly incorporated and existing under the laws of Poland;

it is the sole owner of 4,039,680 (in words: four million thirty nine thousand six hundred eighty) ordinary registered shares in the share capital of the Company, with the nominal value of PLN 10 each, representing 33,95% of the Company's share capital;

the Shares are fully paid up and there are no Security Interest whatsoever or in respect of the whole or any part of the Shares other than the Security Interest created or permitted to subsist in accordance with the Facility Agreement as well as the financial pledge and the registered pledge established over the Shares for the benefit of ING Bank N.V., London Branch in order to secure the claims under the Indenture.



it has not sold or otherwise disposed of or agreed to sell or otherwise dispose of the Shares or any of its rights or interests in respect of the Shares or any part thereof except in accordance with this Agreement;

this Agreement constitutes a valid and legally binding agreement for the establishment of the Registered Pledge enforceable in accordance with its terms and provided that the Registered Pledge has been registered in the pledge register, this Agreement creates Registered Pledge of the Shares in favour of the Pledge Administrator, in accordance with its provisions and the provisions of Polish law;

it has obtained all corporate consents and other permits as well as has taken all action necessary or required by any laws and regulations to enable it to duly execute this Agreement and to duly perform and/or comply with its obligations arising under this Agreement;

its execution and performance of this Agreement will not violate its Statutes, by-laws or other corporate rules, any provisions of law, regulations or any judgment, order or decree of any court, arbitrator or governmental authority or any agreement of any nature binding upon it;

the obligations expressed to be assumed by it in this Agreement are legal, valid, binding and enforceable;

no claims, suits, proceedings, arbitration or investigations have been started or (to the best of its knowledge) threatened against it which could adversely affect its ability to perform its obligations under this Agreement;

the Company's governing documents (i) do not contain a prohibition on voting by proxy at a general meeting nor any other provisions which might adversely affect the execution and performance of this Agreement.

The above representations and warranties are made on the date of this Agreement, and will be deemed to be repeated on each day during the Security Period.

## **PLEDGOR'S UNDERTAKINGS**

### **Duration**

The undertakings in this Clause 9 shall remain in force throughout the Security Period.

### **Information**

- (cc) (a) The Pledgor shall promptly provide to the Pledge Administrator all information reasonably requested by it relating to the Shares and shall promptly give notice in writing to the



Pledge Administrator of any event (other than a change of law) which might have a material adverse effect on the legality, validity, exercise or enforceability of the Security Interest created hereunder.

- (dd) (b) The Pledgor shall provide the Pledge Administrator at any time, upon 2 (two) Business Days' prior request, certified by an authorized signatory on behalf of the Pledgor copy of the valid deposit certificate with respect to the Shares.

#### Negative covenants

The Pledgor shall not:

sell, transfer or otherwise dispose of any of the Shares or assign any right attached thereto, unless permitted under the Facility Agreement;

create (or permit the creation of) any Security Interest in respect of any of the Shares or any rights attached thereto, unless permitted under the Facility Agreement and other than financial pledge and the registered pledge established over the Shares for the benefit of ING Bank N.V., London Branch in order to secure the claims under the Indenture;

introduce (or permit the introduction of) changes to the Company's governing documents which would be inconsistent with the Pledge Administrators' rights under this Agreement or would result in a breach of the Facility Agreement or this Agreement;

take or omit to take any action (or knowingly permit such action or omission) where that action or omission might be expected to adversely affect the rights of the Pledge Administrator under this Agreement; or

#### 8.4 Others

The Pledgor shall:

notify (and ensure that the Company notifies) the Pledge Administrator forthwith upon becoming aware that (i) any action is taken or planned to be taken by any party with a view to instigating execution proceedings directed against the Shares, or (ii) execution proceedings directed against the Shares have been instigated.

at the request of Pledge Administrator, co-operate with the Pledge Administrator in connection with any filings, consents or approvals of governmental authorities to be made or obtain in connection with the enforcement of the security interest created under this Agreement.



## DISTRIBUTION

- (ee) (a) Notwithstanding the provisions of Article 319 of the Civil Code, the Pledgor continues to be entitled to receive all Distributions, unless the Event of Default has occurred.
- (ff) (b) Upon occurrence of an Event of Default, the Pledge Administrator is the sole entity authorized to receive Distribution and the Pledgor shall obey the instructions of the Pledge Administrator in relation to Distributions and refrain from demanding or accepting any Distributions and direct the Company to pay all Distributions to the Pledge Administrator.

## ENFORCEMENT

### Enforcement of the Pledge

- (a) Upon the occurrence of an Event of Default, the Pledge Administrator may, upon prior written notice (“**Enforcement Notice**”), being given by the Pledge Administrator to the Pledgor not later than 7 (seven) days in advance, in its absolute discretion and subject to the provisions of the Pledge Law or at any time hereafter by any of the following methods (as its discretion) in order to satisfy the Secured Claims:
- (i) instituting court enforcement proceedings in accordance with the provisions of the Civil Procedure Code;
  - (ii) selling the Shares in a public auction carried out by a notary or public bailiff pursuant to Article 24 of the Pledge Law;
  - (iii) taking title to the Shares in accordance with Article 22 of the Registered Pledge Law (subject to obtaining all required regulatory consents or notifications, if any).
- (b) The Enforcement Notice shall specify the method of enforcement of the Pledge selected by the Pledge Administrator. If the Pledge Administrator intends to select a different method of enforcement, it shall deliver a new Enforcement Notice specifying such method.

### Value of the Shares

Pursuant to Article 22 of the Pledge Law, the value of the all Share for purpose of taking over title to such Shares by the Pledge Administrator, shall be equal to PLN 1000.

## APPLICATION OF PROCEEDS

The value of Shares set forth in Clause 10.3 (*Value of the Shares*) or the net proceeds of sale of the Shares, as the case may be, which may be applied towards satisfaction of the Secured Claims shall be applied towards their satisfaction in the manner specified in the Facility Agreement. If the value of the Shares, or as the case may be, the net proceeds of sale of the Shares exceed the amount of Secured Claim, the surplus shall be paid to the Pledgor within 14 days of the Pledge Administrator following the date on which the Pledge Administrator receives those net proceeds or takes title to Shares.



## POWER OF ATTORNEY FOR ENFORCEMENT

### Grant of the Power of Attorney

The Pledgor, by way of security, hereby irrevocably appoints the Pledge Administrator as its attorney (with full power of substitution) with effect from delivery of an Enforcement Notice for the purpose of taking any action that the Pledgor is obliged to take under this Agreement. The Pledgor undertakes to ratify and confirm any action that the Pledge Administrator or its substitutes take under the appointment in this Clause 13.1. The attorney may also represent other parties to the agreements, documents and other legal actions to be executed and/or undertaken under the above power of attorney. The Pledgor renounces its right to revoke this power of attorney without the written consent of the Pledge Administrator. The Pledgor declares that its renunciation of the right of revocation is justified by the nature of the legal relationship created by the Agreement, on which this power of attorney is based.

### 12.2 Confirmation of the Power of Attorney

The Pledgor shall produce and execute at the request of the Pledge Administrator all documents necessary to evidence or confirm the grant of the power of attorney under Clause 12.1 (*Grant of Power of Attorney*) including, but not limited to, re-execution of that power of attorney in notarial form, if necessary.

## FURTHER ASSURANCES

The Pledgor shall at its own cost execute any further or additional documents and take whatever action the Pledge Administrator may require for perfecting or protecting the security constituted or evidenced or purported to be constituted or evidenced by this Agreement, or facilitating the exercise of any right or power exercisable by the Pledge Administrator in accordance with this Agreement and shall not do, or consent to, anything which could be expected to prejudice the validity or enforceability of this Agreement.

## INDEMNIFICATION

The Pledgor agrees to indemnify each Indemnifiable Person against and release and protect each Indemnifiable Person from any loss, claim, liability, expense, damages (including fees and disbursements of legal counsel), taxes and stamp duty which may arise from the Pledgor's failure to perform under this Agreement in accordance with its terms, provided that the liability of the Pledgor under this clause shall arise only with respect to such events and circumstances for which he is responsible.



## COSTS

### Court Fees and Other Costs

Each party shall pay its own costs incurred in connection with negotiation, preparation of this Agreement. The Pledgor shall pay costs incurred in connection with the registration of the Registered Pledge.

### Legal Costs

The Pledgor shall pay all costs incurred by the Pledge Administrator in exercising its rights under this Agreement (in particular, in connection with the enforcement of the Registered Pledge) including, but not limited to, the cost of legal advisers to the Pledge Administrator and the costs of legal proceedings.

### Reimbursement

If any of the payments referred to in Clause 16.2 are made by the Pledge Administrator, the Pledgor shall reimburse the Pledge Administrator for all such costs promptly after receipt from the Pledge Administrator of a request for reimbursement of costs together with a copy of an invoice, acknowledgement of receipt or other document reasonably evidencing payment by the Pledge Administrator of such costs.

## NOTICES

The provisions of Clause 15.3 (*Notices*) of the Facility Agreement are incorporated and apply to this Agreement as if set out in full herein, mutatis mutandis.

## AMENDMENTS

Any amendment to this Agreement shall be null and void unless made in writing and signed by both Parties.

## LANGUAGE

This Agreement is executed in two copies in the English language and four in the Polish language, one copy of each language version for each Party and one Polish language version for the registration court and one for the Company. In the event of any discrepancies between the language versions, the Polish version shall prevail.

## SCOPE OF SECURITY

Each of the security interests created hereunder is a continuing security and extends to the ultimate balance of the Secured Claims and remains in force notwithstanding any intermediate payment or increase or amendment of the Secured Claims or an effective transfer by the Pledge of any of its rights and claims under the Facility Agreement to any third party.



ASSIGNMENT

The Pledgor undertakes not to assign or transfer any of its rights, benefits and obligations under this Agreement without written consent of the Pledge Administrator.

GOVERNING LAW

This Agreement shall be governed by and construed in accordance with Polish law.

DISPUTE RESOLUTION

The Parties to this Agreement irrevocably agree that any disputes which may arise in connection with this Agreement or which are related to its violation, termination or nullity will be finally settled by courts of Poland competent for the registered office of the Pledge Administrator.





SCHEDULE 1

NOTICE TO THE COMPANY OF THE ESTABLISHMENT OF THE REGISTERED PLEDGE

To: Przedsiębiorstwo Polmos Białystok S.A. ("Company")  
From: Carey Agri International - Poland Sp. z o.o. ("**Pledgor**")  
Copy to: Fortis Bank Polska S.A. ("**Pledge Administrator** ")  
Date: December 21, 2007  
Subject: Establishment of the registered pledge over shares of the Company, subject to its registration, under an agreement between the Pledge Administrator and the Pledgor dated December 21, 2007 ("**Agreement**").  
Attachment: We attach a signed copy of the Agreement. (Expressions defined in the Agreement have the same meaning when used in this notice).

5.

6. Dear Sirs,

8. We hereby give you notice that, under the Agreement, we have pledged the Shares by way of an Registered Pledge, subject to its registration in the register of pledges. Upon registration in the Register, the Registered Pledge over the Shares will be perfected.

9.

10. We hereby instruct you to:

- following receipt of notice from us of registration of the Registered Pledge, to disclose the establishment of the Registered Pledge in your share register pursuant to Article 341 of the CCC; and make an entry in the share register that the Pledge Administrator is authorised to exercise Voting Rights if an Event of Default occurs; and
- provide us within 3 Business Days with a copy of the Company's share register showing the above requested entry.

This notice is governed by Polish law.



## SCHEDULE 2

### Notice to the Company of the Establishment of the Registered Pledge

To: Przedsiębiorstwo Polmos Białystok S.A. (“**Company**”)

From: Carey Agri International - Poland Sp. z o.o. (“**Pledgor**”)

Copy to: Fortis Bank Polska S.A. (“**Pledge Administrator**”)

Date: December 21, 2007

Subject: Establishment of the registered pledge over shares under an agreement between the Pledge Administrator and the Pledgor dated December 21, 2007 (“**Agreement**”), a copy of which was delivered to you on or about [●]. (Expressions defined in the Agreement have the same meaning when used in this notice).

Attachment: Decisions of the court dated [\_\_\_] to enter the Registered Pledge in the Register

Dear Sirs,

We hereby give you notice that, under the Agreement, we have pledged the Shares by way of the Registered Pledge. The Registered Pledge has been registered in the Register by decision of the court dated [●] the copy of which is attached.

We hereby instruct you to:

- disclose the establishment of the Registered Pledge and the Pledge Administrator as beneficiary of the Registered Pledge in your share register pursuant to Article 341 of the CCC make an entry in the share register that the Pledge Administrator is authorised to exercise Voting Rights if an Event of Default occurs; and
- provide us within 3 Business Days with a copy of the Company’s share register showing the above requested entry.

This notice is governed by Polish law.



<b>CENTRAL EUROPEAN DIS</b>	RR Donnelley ProFile	wcrdoc1 9.9.22	WCRjanas0in	09-Feb-2008 11:00 EST	<b>38634 EX10 31 191</b>	3*
<b>FORM 10-K WITH WRAP</b>			TAM	CLN	PS ESS	1C

### SCHEDULE 3

#### Notice to the Pledgor and the Company on the Exercise of Voting Rights Event of Default

To: Przedsiębiorstwo Polmos Białystok S.A. (“**Company**”) Carey Agri International - Poland Sp. z o.o. (“**Pledgor**”)  
From: Fortis Bank Polska S.A (“**Pledge Administrator**”)  
Date: December 21, 2007  
Subject: Exercise of Voting Rights under an Agreement for Registered Pledge over Shares of Przedsiębiorstwo “POLMOS” Białystok S.A. between the Pledge Administrator and the Pledgor dated December 21, 2007 (“**Agreement**”).

Dear Sirs,

We hereby give you notice that an Event of Default is continuing and as from the date of this notice we intend to exercise the voting rights attached to the Sharers in accordance with Clause 6.2. of the Agreement.

Expressions defined in the Agreement have the same meaning when used in this notice.

This notice is governed by Polish law.

by: ☐

position: ☐

in the name and on behalf of Fortis Bank Polska Sp. z o.o.



IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorised representatives on the day as first written above.

Carey Agri International - Poland Sp. z o.o. acting as the pledgor

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Fortis Bank Polska S.A. acting as the pledge administrator

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



SAMPLE

## BILL DECLARATION

of [•]

We, the undersigned,

[*Name and surname of the person authorised to represent the bill maker*], [•] citizen, residing in Poland, [address], holder of passport no [•], and

[*Name and surname of the person authorised to represent the bill maker*], [•] citizen, residing in Poland, [address], holder of card of stay no [•],

acting on behalf and in favour of [*name of the company – bill maker*] with registered office in [•], [address], registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in [•],[•] Commercial Division of the National Court register under the KRS no [•] (referred hereinafter to as “**the Debtor**”)

transmit hereby to

[*name of the bank*] with registered office in [•] [address] registered in the Register of Entrepreneurs of the National Court Register kept by the District Court for the capital city of Warsaw, [•] Commercial Division of the National Court Register under the KRS no [•] (referred hereinafter to as “**the Creditor**”)

a *blank* bill (referred hereinafter to as “**the Bill**”)

The Creditor shall be authorised to fill-in the Bill up to the amount of [•] zlotys (in words: [•] zlotys) if **Carey Agri International – Poland Sp. z o.o.** with registered office in Warsaw, ul. Bokszerska (street) no 66a, registered in the Register of Entrepreneurs of the National Court Register under the KRS no 0000051098 (referred hereinafter to as “**the Borrower**”) fails to meet its payment obligations towards the Creditor under the credit facility agreement concluded on 21 December 2007 between the Creditor, the Borrower and [the Bank



Polska Kasa Opieki S.A./Fortis Bank Austria S.A./NV, Austrian Branch] (referred hereinafter to as “**the Credit Facility Agreement**”).

The Creditor shall be authorised to fill-in the Bill with the date and place of payment and the clause “no protestation” at its sole discretion.

The Creditor shall be obliged to return the Bill within 7 (seven) days from the day on which all Creditor’s claims towards the Borrower under the Credit Facility Agreement have been fully satisfied.

Terms in capital letters, unless otherwise defined in this document, shall have the meaning defined in the Credit Facility Agreement.

---

[name of the bill maker]  
Name and Surname: [•]  
Title: [•]

---

[name of the bill maker]  
Name and Surname: [•]  
Title: [•]  
I accept this bill declaration

---

[name of the bank]  
Name and Surname: [•]  
Title: [•]

---

[name of the bank]  
Name and Surname: [•]  
Title: [•]



**BLANK BILL**

We, the undersigned, while acting on behalf and in favour of [*the name of the bill maker*], with registered office in [•] [*address*], registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Szczecin, [•] Commercial Division of the National Court register under the KRS no 0000035408, hereby unconditionally and irrevocably agree to pay to [*name of the bank*], with registered office in [•], [*address*], registered in [the Register of Entrepreneurs of the National Court Register kept by the District Court for the capital city of Warsaw], [•] Commercial Division of the National Court Register under the KRS no [•] \_\_\_\_\_ for this bill, within \_\_\_\_\_ from its presentation, the amount of \_\_\_\_\_ zlotys (in words: \_\_\_\_\_).

This bill was made on [•], in Warsaw.

The bill is payable in \_\_\_\_\_

SIGNED by [*name and surname, title*]

authorised for [*the name of the bill maker*] \_\_\_\_\_

SIGNED by [*name and surname, title*]

authorised for [*the name of the bill maker*] \_\_\_\_\_



[Seal of the Notary Public]

COPY

Repertory A no [•]

### NOTARY'S DEED

This day, on \_\_\_\_\_ (in digits) before me, [*name and surname of the Notary Public*] , Notary Public in [•], having his/her Notary's Office in [•], [*address*], who came to the building located in [•] [*address*], appeared the following persons: \_\_\_\_\_

1. [**name and surname**], residing in [•] [*address*], holder of [•] passport no [•], \_\_\_\_\_

2. [**name and surname**], residing in [•] [*address*], holder of [•] passport no [•], \_\_\_\_\_

Both acting on behalf and in favour of the company [**name of the company**] with registered office in [•] (*address, REGON no \_\_\_\_\_, NIP no \_\_\_\_\_*) , registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in [•], [•] Commercial Division of the National Court Register under the KRS no \_\_\_\_\_ (referred hereinafter to as "**the Company**") the first person acting as [*title*] and the second as [*title*], both being authorised to jointly represent the Company according to the submitted copy of excerpt from the register of entrepreneurs issued by the Branch of KRS Central Information in [•], , valid as on [*date*] 200\_\_\_\_\_

The identity of the appearing persons was established by the Notary Public on the basis of identity documents mentioned hereinabove. The appearing persons declared that data shown in the above mentioned excerpt from the register of entrepreneurs have not changed and, especially, that their powers to represent the Company have not changed nor have been cancelled. \_\_\_\_\_

According to their declarations, the appearing persons speak Polish.

**DECLARATION ON THE SUBMISSION TO EXECUTORY JUDICIAL PROCEEDINGS UNDER ART. 777 § 1 ITEM 5 OF THE CODE OF CIVIL PROCEDURE**





§ 1

The appearing persons declare, on behalf of the Company that, under the credit facility agreement of [date], concluded between [names of banks] and the Company (referred hereinafter to as “**the Credit Facility Agreement**”), [name of the bank] with registered office in Warsaw, [address], registered in the Register of Entrepreneurs of the National Court Register kept by the District Court for the capital city of Warsaw, [•], Commercial Division of the National Court Register under the KRS no [•], (referred hereinafter to as “**the Bank**”) extended to the Company a credit facility up to the amount of PLN [•] (in words: \_\_\_\_\_ zlotys) (referred hereinafter to as “**the Credit Facility**”). According to the provisions of the Credit Facility Agreement, the final date of payment of the Credit Facility falls on [date]. The parties to the Credit Facility Agreement agreed that in relation to payment in favour of the Bank of all financial obligations resulting from the Credit Facility Agreement, including the payment of the principal and interest, the Company would submit itself to judicial executory proceedings under art.777 § 1 item 5 of the Code of Civil Procedure. \_\_\_\_\_

§ 2

1. The appearing persons declare, on behalf of the Company that, in relation to the obligation of payment in favour of [name of the bank] with registered office in Warsaw of the Credit Facility up to the amount of PLN [•] (in words : \_\_\_\_\_ zlotys) with interest and payment by the Company of all financial obligations to the Bank under the Credit Facility Agreement including all and any costs and fee connected with court or judicial executory proceedings relating to claims being the subject of judicial executory proceedings, they submit themselves to judicial executory proceedings directly on the basis of this Deed under art. 777 § 1 item 5 of the Code of Civil Procedure, from all their property up to the amount of PLN [•] (in words : \_\_\_\_\_ zlotys).
2. The appearing persons declare, on behalf of the Company that the Company obtained all and any consents of its bodies required for the execution of this Deed.



§ 3

On the basis of this Deed, the Bank may conduct judicial executory proceedings towards the Company in case of failure by the Company to pay in full or any part of amounts payable under the Credit Facility Agreement what must be stated by way of the Facility Agent acting by virtue of the Credit Facility Agreement. \_\_\_\_\_

The Bank shall be authorised to address the court with a demand to obtain an executory clause for this Deed at latest on [date]  
\_\_\_\_\_

§ 4

The Notary Public informed the Company of the contents of the provisions of art. 777 § 1 item 5 and 786 § 1 of the Code of Civil Procedure and legal implications resulting from the said provisions. \_\_\_\_\_

§ 5

The appearing persons, acting on behalf of the Company, informed of the following Company's address for service of judicial documents:

[address] \_\_\_\_\_

§ 6

The costs of execution of this Deed shall be borne by the Company.

§ 7

The copies of this Deed may be delivered to the Bank in any quantity.

§ 8

Fee; \_\_\_\_\_

- Notary Public fee (§§ 1,3 of the Ordinance of the Minister of Justice of 28 June 2004 on Notary Public maximal fee . Dz.U. No 148 with subs. amendm. ) \_\_\_\_\_ [•] zlotys
- VAT tax according to the 22% rate (art.41 of the Act on Vat tax – Dz.U.No 54 item 535 with subs. amendm.) \_\_\_\_\_ [•] zlotys

THIS DEED HAS BEEN READ, ACCEPTED AND SIGNED \_\_\_\_\_

[Notary Public clause on the delivery of copy of the deed]

[Seal and signature of the Notary Public]



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**CENTRAL EUROPEAN DIS**  
**FORM 10-K WITH WRAP**

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Page 1 of 1

CHADBOURNE  
& PARKE LLP  
(through a Polish partnership)

SAMPLE

**CORPORATE GUARANTEE AGREEMENT**

**dated December 21, 2007**

**between**

**FORTIS BANK POLSKA S.A.**

**FORTIS BANK S.A./NV, AUSTRIAN BRANCH**

**BANK POLSKA KASA OPIEKI S.A.**

**as Lenders**

**and**

**CENTRAL EUROPEAN DISTRIBUTION CORPORATION**

**as Guarantor**



**THIS AGREEMENT FOR CORPORATE GUARANTEE** (the “**Agreement**”) is dated December 21, 2007 and made between:

- (7) **CENTRAL EUROPEAN DISTRIBUTION CORPORATION**, company organized and existing under the laws of the State of Delaware of the United States, duly represented by: William V. Carey (the “**Guarantor**”),
- (8) **FORTIS BANK POLSKA S.A.**, a bank organized and existing under the laws of the Republic of Poland, with its seat in Warsaw at ul. Suwak 3, entered into the register of business entities of the National Court Register under the KRS number 0000006421, duly represented by: Robert Chudzik and Marta Łoza (“**Fortis Bank Polska**”),
- (9) **FORTIS BANK S.A./NV, AUSTRIAN BRANCH**, a credit institution organized and existing under the laws of Belgium having its business address at Montagne du Parc 3, B-1000 Brussels, Belgium acting within the scope of business of its Austrian branch, Euro Plaza/D, Technologiessrassse 8, A-1120 Vienna, Austria, FN 263765 of the commercial court Vienna, DVR-Nr. 211 1743 duly represented by: Robert Chudzik and Marta Łoza (“**Fortis Bank Austria**”),
- (4) **BANK POLSKA KASA OPIEKI S.A.**, with its registered seat in Warsaw, at Grzybowska 53/57, registered in the entrepreneurs register maintained by the National Court Register under number 0000014843, duly represented by: Dieter Lobnig and Agnieszka Wolska (“**Bank PeKaO**”),  
  
(each a “**Party**” and jointly the “**Parties**”).

**WHEREAS:**

- (h) On December 21, 2007 Carey Agri International - Poland Sp. z o.o., with its seat in Warsaw at ul. Bokszerska 66a, as the borrower (the “**Borrower**”) and the Lenders entered into the credit facility agreement (“**Credit Facility Agreement**”);
- (i) On the terms of the Credit Facility Agreement, the Lenders have undertaken to make available to the Borrower a credit facility in the maximum amount of PLN 300,000,000;
- (j) The execution of this Agreement is required as security for all claims of the Lenders towards the Borrower under the Credit Facility Agreement;
- (k) The Guarantor has agreed to guarantee in favor of each of the Lender for all payment obligations of the Borrower under the Credit Facility Agreement;
- (l) The terms and conditions of the Credit Facility Agreement are known to the Guarantor.



IT IS AGREED as follows:

## 1. GUARANTEE

The Guarantor hereby unconditionally and irrevocably undertakes, within the meaning of Article 876 § 1 of the Polish Civil Code (*poreczenie*), to pay to each of the Lenders, upon presentation of the first written demand (the “**Guarantee Payment Request**”) any and all amounts due from the Borrower under the Credit Facility Agreement, provided that:

- (i) the obligations of the Guarantor under this guarantee to pay any amounts payable under the Credit Facility Agreement to Fortis Bank Polska shall be up to the amount of PLN 120,000,000 (one hundred twenty million Polish Zlotys) (“**FBP Guarantee**”);
- (ii) the obligations of the Guarantor under this guarantee to pay any amounts payable under the Credit Facility Agreement to Bank PeKaO shall be up to the amount of PLN 105,000,000 (one hundred five million Polish Zlotys) (“**PeKaO Guarantee**”);
- (iii) the obligations of the Guarantor under this guarantee to pay any amounts payable under the Credit Facility Agreement to Fortis Bank Austria shall be up to the amount of PLN 225,000,000 (two hundred twenty five million Polish Zlotys) (“**FBA Guarantee**” and together with FBA Guarantee and PeKao Guarantee - “**Guarantees**”).

As the result of issuance of the Guarantees, the Guarantor becomes jointly and severally liable together with the Borrower for all the claims of the relevant Lender towards the Borrower under the Credit Facility Agreement.

The relevant Guarantee Payment Request may only be delivered to the Guarantor if the Borrower fails to pay any amounts due under the Credit Facility Agreement.

The relevant Lender shall notify the Guarantor of any delay in due payment by the Borrower of any amounts payable under the Credit Facility Agreement by delivering a written notice (“**Non-Payment Notice**”).

The Guarantee Payment Request shall be executed substantially in the form and substance as set forth in **Schedule no. 1** to this Agreement.

## 2. PAYMENTS UNDER THE GUARANTEE

Subject to item (b) below, the Guarantor shall make a payment to respective Lender under the Guarantee in the same manner in all respects as if this payment was done by the Borrower pursuant to the Credit Facility Agreement.

The Guarantor shall make a payment on behalf of the respective Lender only upon delivery of the Guarantee Payment Request:

- (i) within 2 (two) Business Days following the receipt of the Guarantee Payment Request from the relevant Lender;
- (ii) in the amount and in the currency specified in the Guarantee Payment Request; and
- (iii) to the bank account specified for this purpose in the Guarantee Payment Request.



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Subject to mandatory provisions of Polish law, the payments under the Guarantees may be made in the currency other than PLN. In such a case, the amount of the payment under the Guarantee shall be converted into other currency on the basis of the exchange rate published by the National Bank of Poland as of the day on which such a payment is made. Any costs connected with such conversion shall be borne by the Guarantor.

All payments made by the Guarantor to the relevant Lender under this Agreement shall release the Guarantor from responsibility towards such Lender to the extent of the amount of the payment made.

### 3. EXPIRATION

The Guarantee may be revoked by the Guarantor after March 31, 2012 unless by this date the Borrower incurred any payment obligations under the Credit Facility Agreement which are secured by the Guarantees.

The Guarantee shall expire and be released: (i) on the date on which all claims of the Lenders towards the Borrower under the Credit Facility Agreement have been unconditionally and irrevocably paid and discharged in full or (ii) on March 31, 2014, whichever occurs earlier.

### 4. REPRESENTATIONS AND WARRANTIES

Being fully aware of the fact that the Lenders are relying on the representations and warranties set forth below, the Guarantor hereby represents and warrants to the Lenders that:

- (i) it is a company duly incorporated and existing under the laws of the State of Delaware of the United States;
- (ii) it has all necessary power, has taken all necessary corporate action, has obtained all necessary consents and has taken all action necessary or required by the laws and regulations of Poland and the State of Delaware of the United States to enable it to duly execute this Agreement and to duly perform and/or comply with its obligations arising under this Agreement;
- (iii) its execution and performance of this Agreement will not violate its statutes, by-laws or other corporate rules, any provisions of law, regulations or any judgment, order or decree of any court, arbitrator or governmental authority or any agreement of any nature binding upon it;
- (iv) the obligations expressed to be assumed by it in this Agreement are legal, valid, binding and enforceable;
- (v) no claims, suits, proceedings, arbitration or investigations have been started or (to the best of its knowledge) threatened against it which could adversely affect its ability to perform its obligations under this Agreement;
- (vi) this Agreement creates the security interest it purports to create under the Polish law in favour of the Lenders from the date of this Agreement.

The above representations and warranties are made on the date of this Agreement, and will be deemed to be repeated on each date that any representation is made or deemed repeated pursuant to the Credit Facility Agreement.



## 5. FURTHER ASSURANCES

The Guarantor shall at its own cost execute any further or additional documents and take whatever action the Lenders may require for perfecting or protecting the security constituted or evidenced or purported to be constituted or evidenced by this Agreement, or facilitating the exercise of any right or power exercisable by the Lenders in accordance with this Agreement and shall not do, or consent to, anything which could be expected to prejudice the validity or enforceability of this Agreement.

## 6. INDEMNIFICATION

The Guarantor agrees to indemnify each Lender as well as any of its attorneys, agents, directors, management or supervisory board members or employees (the “**Indemnifiable Persons**”) against and release and protect each Indemnifiable Person from any loss, claim, liability, expense, damages (including fees and disbursements of legal counsel), taxes and stamp duty which may arise from the Guarantor’s failure to perform under this Agreement in accordance with its terms, provided that the liability of the Guarantor under this clause shall arise only with respect to such events and circumstances for which the Guarantor is responsible.

## 7. EXCLUSION OF SUBROGATION

To the extent permitted by law, the Guarantor undertakes not to perform any right of subrogation that might arise if the Lender enforces its security under this Agreement, until full satisfaction of all the claims of the Lenders toward the Borrower under the Credit Facility Agreement.

The Guarantor shall immediately pay or transfer to the relevant Lender any payment or distribution it receives by virtue of any subrogation.

## 8. SCOPE OF SECURITY

Subject to Clause 3 (*Expiration*), the security interests created hereunder is a continuing security and extends to the ultimate balance of the claims of the Lenders toward the Borrower under the Credit Facility Agreement and remains in force notwithstanding any intermediate payment or increase or amendment of the those or an effective transfer by the Borrower of any of its rights and claims under the Credit Facility Agreement to any third party.

## 9. INFORMATION

The Guarantor shall promptly furnish the Lenders with all information requested in writing by the Lenders and shall promptly give notice in writing to the Lenders of any event which may have a material adverse effect on the legality, validity, exercise or enforceability of the security interest created hereunder.



#### 10. COSTS

Each Party shall pay its own costs and fees, taxes, translation and (if any) legalisation costs incurred in connection with negotiation, preparation and execution of this Agreement unless otherwise provided for in this Agreement.

The Guarantor shall pay all costs incurred by the relevant Lender in exercising its rights under this Agreement including, but not limited to, the cost of legal advisers to the Lenders and the costs of legal proceedings.

In case that after the date of this Agreement, as a result of enactment of laws, there shall be an obligation of tax withholding or a fee payment, causing decrease of the amount payable or paid by the Guarantor to, or received by the Lenders hereunder, the Guarantor shall pay the required payment in such amount that the Lenders would have received, if there had been no tax accrual or if there had been no withholding.

#### 11. NOTICES

Any communication made under this Agreement shall be made in writing and by fax or letter.

Any communication or document to be made or delivered pursuant to this Agreement shall be sent or delivered to the relevant Party at the address or fax number specified below, unless such Party specifies another address by giving 5 (five) Business Days' prior written notice. Any such communication or document shall be deemed to have been made or delivered (i) if sent by fax, when transmission has been completed and appropriate successful transmission report has been produced, or (ii) if sent by letter, when left at the relevant address or, as the case may be, 10 (ten) days after posting (postage prepaid) in an envelope addressed to the relevant Party at such address.

Any communication or document made or delivered under this Agreement shall be in English.

##### To the Guarantor:

##### **CENTRAL EUROPEAN DISTRIBUTION CORPORATION.**

Address: ul. Bobrowiecka 6, 00-728 Warsaw, Poland  
Tel: +48 22 45 66 000  
Fax: +48 22 45 66 001  
Attention: the Management Board

##### To the Lenders:

##### **FORTIS BANK POLSKA S.A.**

Address: ul. Suwak 3, Warszawa  
Tel: +48 22 5669060  
Fax: +48 22 5669079  
Attention: Mr. Robert Chudzik, Ms. Izabela Bogumił, Ms. Marta Izoza





**FORTIS BANK S.A./NV AUSTRIAN BRANCH**

Address:

Technologiestrasse 8, 1120 Wien, Austria

Tel: +43 1 81104 38183

Fax: +43 1 81104 38168

E-mail: angelika.gottweis@fortis.com; andrea.wallner@fortis.com

Attention: Ms. Angelika Gottweis, Ms. Michaela Wallner

**BANK POLSKA KASA OPIEKI S.A.**

Address:

ul. Towarowa 25 A, 00-958 Warsaw, Poland

Tel: +48 22 531 95 60

Fax: +48 22 531 95 36

E-mail: agnieszka.wolska2@pekao.com.pl/

Attention: Ms. Agnieszka Wolska, Mr. Dieter Lobnig

**12. AMENDMENTS**

Any amendment to this Agreement shall be null and void unless made in writing and signed by all Parties.

**13. LANGUAGE**

This Agreement is executed in four copies in the English language, one copy for each Party.

**14. ASSIGNMENT**

The Guarantor undertakes not to assign or transfer any of its rights, benefits and obligations under this Agreement without written unanimous consent of all of the Lenders.

**15. GOVERNING LAW**

This Agreement shall be governed by and construed in accordance with Polish law.

**16. DISPUTE RESOLUTION**

The Parties to this Agreement irrevocably agree that any disputes which may arise in connection with this Agreement or which are related to its violation, termination or nullity will be finally settled by courts of Poland competent for the registered office of the Fortis Bank Polska.

The Guarantor hereby irrevocably designates, appoints and empowers Carey Agri International-Poland sp. z o.o. at its registered office (being, on the date hereof, at ul. Boksterska 66a, 02-690 Warsaw, Poland) to act as its authorised agent to receive service of process and any other legal summons in Poland for purposes of any legal action or proceeding brought by the Lenders in respect of this Agreement. The Guarantor hereby irrevocably consents to the service of process or any other legal



summons out of such courts by mailing copies thereof by registered airmail postage prepaid to its address specified herein. The Guarantor covenants and agrees that, so long as it has any obligations under this Agreement, it shall maintain a duly appointed agent to receive service of process and any other legal summons in Poland for purposes of any legal action or proceeding brought by any of the Lenders in respect of this Agreement as well as any other Financing Agreement and shall keep the Lenders advised of the identity and location of such agent.

**17. INTERPRETATION**

Unless otherwise defined in this Agreement, a term defined in the Facility Agreement has the same meaning when used in this Agreement.



SCHEDULE NO. 1

FORM OF THE GUARANTEE PAYMENT REQUEST

**From:** [name of the relevant lender].

**To:** CENTRAL EUROPEAN DISTRIBUTION CORPORATION.

[date] [place]

Dear Sirs,

Re: Agreement for Corporate Guarantee dated December 21, 2007 (the "**Agreement**")

1. We refer to the Agreement and to the Non-Payment Notice we delivered to you on [•]. This is a Guarantee Payment Request. Terms defined in the Agreement have the same meaning in this Guarantee Payment Request unless given a different meaning in this Guarantee Payment Request.
2. We require you to make a payment under the [FBP Guarantee/BPH Guarantee/FBA Guarantee] (the "**Guaranteed Payment**") on the following terms:
  11. Guaranteed Payment date: [•] (or, if that is not a Business Day, the next Business Day)
  12. Guaranteed Payment amount: [•]
  13. Currency: [•]
14. 3. We confirm that the entire amount requested in this Guarantee Payment Request aggregated with the amounts so requested under Guaranteed Payments being already made by you under the Agreement is within the amount for which [FBP Guarantee/BPH Guarantee/FBA Guarantee] has been issued.
15. 4. The Guaranteed Payment should be credited to our bank account no. [•] maintained with [•].
17. Yours faithfully,
19. \_\_\_\_\_ authorized signatory for
20. [name of the relevant Lender]



**IN WITNESS WHEREOF**, the Parties have caused this Agreement to be executed by their duly authorised representatives on the day as first written above.

**Central European Distribution Corporation**

Signature: \_\_\_\_\_  
Name:     ☐  
Title:     ☐

**Fortis Bank Polska S.A.**

Signature: \_\_\_\_\_  
Name:     ☐  
Title:     ☐

Signature: \_\_\_\_\_  
Name:     ☐  
Title:     ☐

**Fortis Bank S.A./NV, Austrian Branch**

Signature: \_\_\_\_\_  
Name:     ☐  
Title:     ☐

Signature: \_\_\_\_\_  
Name:     ☐  
Title:     ☐

**Bank Polska Kasa Opieki S.A.**

Signature: \_\_\_\_\_  
Name:     ☐  
Title:     ☐

Signature: \_\_\_\_\_  
Name:     ☐  
Title:     ☐



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**Exhibit 21**

1. Carey Agri International Poland Sp. z o.o., a limited liability company organized under the laws of Poland.
2. Multi Trade Company Sp. z o.o., a limited liability company organized under the laws of Poland.
3. Piwnica Wybornych Win Sp. z o.o., a limited liability company organized under the laws of Poland.
4. Polskie Hurtownie Alkoholi Sp. z o.o., a limited liability company organized under the laws of Poland.
5. Astor Sp. z o.o., a limited liability company organized under the laws of Poland.
6. Damianex S.A., a corporation formed under the laws of Poland.
7. Agis S.A., a corporation formed under the laws of Poland.
8. Onufry S.A., a corporation formed under the laws of Poland.
9. Dako Galant Sp. z o.o., a limited liability company organized under the laws of Poland.
10. Panta Hurt Sp z o.o., a limited liability company organized under the laws of Poland.
11. Multi-Ex S.A., a corporation formed under the laws of Poland.
12. Miro Sp z o.o., a limited liability company organized under the laws of Poland.
13. Saol Sp z o.o., a limited liability company organized under the laws of Poland.
14. Polnis Sp z o.o., a limited liability company organized under the laws of Poland.
15. Fine Wines and Spirits, Sp z o.o., a limited liability company organized under the laws of Poland.
16. Imperial Sp z o.o., a limited liability company organized under the laws of Poland.
17. Delikates Sp z o.o., a limited liability company organized under the laws of Poland.
18. Krokus Sp z o.o., a limited liability company organized under the laws of Poland.
19. Bols Sp z o.o., a limited liability company organized under the laws of Poland.
20. Polmos Bialystok S.A., a corporation formed under the laws of Poland.
21. Bols Hungary, Kft, a limited liability company organized under the laws of Hungary.
22. Classic Sp z o.o., a limited liability company organized under the laws of Poland.
23. PHS Sp. z o.o., a limited liability company organized under the laws of Poland.



**Exhibit 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333 – 146375) and Form S-3 (Nos. 333 – 129073 and 333 – 138809) of Central European Distribution Corporation of our report dated February 28, 2008 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this annual report on Form 10-K.

PricewaterhouseCoopers Sp. z o.o.  
Warsaw, Poland  
February 29, 2008



1BH32W7MGC06PJL

**Exhibit 31.1****CERTIFICATIONS**

I, William V. Carey, President and Chief Executive Officer of Central European Distribution Corporation, certify that:

1. I have reviewed this report on Form 10-K of Central European Distribution Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2008

By: /s/ WILLIAM V. CAREY  
 William V. Carey  
 President and Chief Executive Officer  
 (principal executive officer)



**Exhibit 31.2**

**CERTIFICATIONS**

I, Chris Biedermann, Vice President and Chief Financial Officer of Central European Distribution Corporation, certify that:

1. I have reviewed this report on Form 10-K of Central European Distribution Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2008

By: /s/ CHRIS BIEDERMANN  
Chris Biedermann  
Vice President and Chief Financial Officer  
(principal financial officer)





**Exhibit 32.1**

**Written Statement of Chief Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned, the Chief Executive Officer of Central European Distribution Corporation (the "Company"), hereby certifies that, to his knowledge on the date hereof:

- (a) the Form 10-K of the Company for the fiscal year ended December 31, 2007, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ WILLIAM V. CAREY

\_\_\_\_\_  
William V. Carey  
Chairman, President and Chief Executive Officer

February 29, 2008



**Exhibit 32.2**

**Written Statement of Chief Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned, the Chief Financial Officer of Central European Distribution Corporation (the "Company"), hereby certifies that, to his knowledge on the date hereof:

- (a) the Form 10-K of the Company for the fiscal year ended December 31, 2007, filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHRIS BIEDERMANN

**Chris Biedermann**  
Vice President and Chief Financial Officer

February 29, 2008