9th April, 2010 No. 23-229
Vilnius

Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius
LITHUANIA

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, President of DVARCIONIU KERAMIKA, AB Audris Imbrasas and Chief Financial Officer of DVARCIONIU KERAMIKA, AB Vanda Kalpokiene, hereby confirm that, to the best of our knowledge, the attached DVARCIONIU KERAMIKA, AB audited Financial Statements for the 2009 year prepared in accordance to International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of DVARCIONIU KERAMIKA, AB undertakings.

Enclosed: DVARCIONIU KERAMIKA, AB Financial Statements for the year 2009, Annual report.

President Audris Imbrasas

Chief Financial Officer Vanda Kalpokienė

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Lithuania
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**DVARČIONIŲ KERAMIKA AB**

**Annual Report and Financial Statements**
**for the year ended 31 December 2009**
**Including Independent Auditor's Report**

# TABLE OF CONTENTS

# Information about the Company

**Dvarčionių Keramika AB**

**Company code 110628481**

**VAT code LT106284811**

| | |
|---|---|
| Telephone No. | + 370 5 2317021 |
| Fax No. | + 370 5 2317061 |
| Situated in: | Keramikų 2, Vilnius, LT-10233 Lithuania |
| Web page: | www.keramika.lt |
| E-mail: | info@keramika.lt |

**Board of directors**

| | |
|---|---|
| Audris Imbrasas | Chairman, President |
| Algirdas Krupavičius | Board member, Sales and Marketing Director |
| Mindaugas Bučas | Board member, Production and Technology Director |
| Liudmila Suboč | Board member, Human Resource and Administration Director |
| Giedrius Kolesnikovas | Board member |

**Management**

| | |
|---|---|
| Audris Imbrasas | President |
| Algirdas Krupavičius | Sales and Marketing Director |
| Mindaugas Bučas | Production and Technology Director |
| Liudmila Suboč | Human Resource and Administration Director |

**Auditor**

KPMG Baltics, UAB

**Banks**

Swedbank, AB
AB SEB Bankas
AB Bankas Snoras

**KPMG Baltics, UAB**
Vytauto 12
LT-08118, Vilnius
Lithuania

Phone: +370 5 2102600
Fax: +370 5 2102659
E-mail: vilnius@kpmg.lt
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# Independent auditor's report

## To the shareholders of Dvarčionių Keramika AB

**Report on the financial statements**

We have audited the accompanying financial statements of Dvarčionių Keramika AB ('the Company'), which comprise the statement of financial position as at 31 December 2009, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, set out on pages 34 to 65.

The corresponding figures presented are based on the financial statements of the Company as at and for the year ended 31 December 2008, which were audited by another auditor whose report, dated 31 March 2009, expressed an unqualified opinion on those statements.

*Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Company code: 111494971
VAT code: LT114949716

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Dvarčionių Keramika AB as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

**Report on legal and other regulatory requirements**

Furthermore, we have read the annual report for the year ended 31 December 2009, set out on pages 6 to 33 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements for the year ended 31 December 2009.

Vilnius, 7 April 2010
KPMG Baltics, UAB

Domantas Dabulis
Partner
Certified Auditor

Ieva Voverienė
Certified Auditor

# Annual report

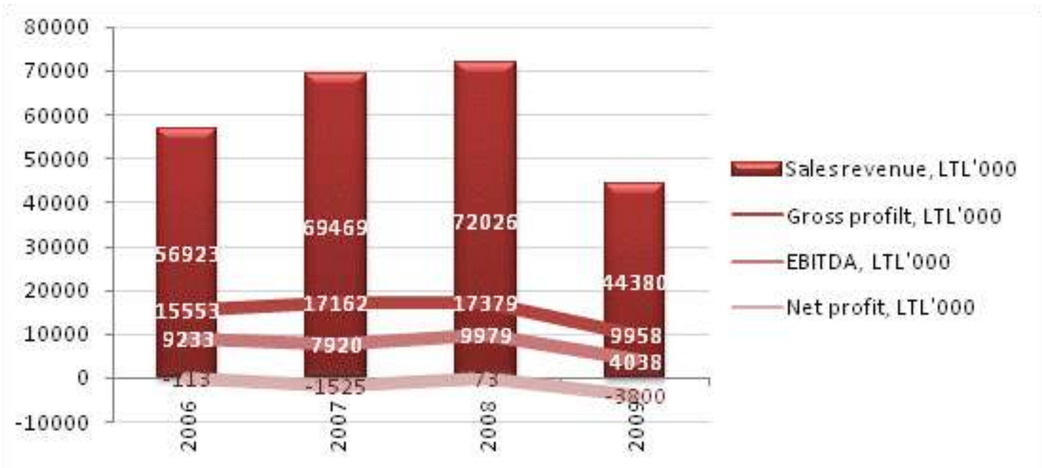
## 1. Description of the Company‘s economic performance and development, specification of main risk areas, which the Company encounter

### 1.1. Overview of the Company‘s economic performance and development

#### 1.1.1. General overview

Company’s key performance indicators for the period 2006 - 2009:

| | 2006 Corrected | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Sales revenue, LTL’000 | 56,923 | 69,469 | 72,026 | 44,380 |
| Gross profit, LTL’000 | 15,553 | 17,162 | 17,379 | 9,958 |
| Gross profit margin, % | 27% | 25% | 24% | 22% |
| Operating profit, LTL’000 | 1,880 | 571 | 2,592 | -5,480 |
| Operating profit margin, % | 3.3% | 0.8% | 3.6% | -12.3% |
| EBITDA, LTL’000 | 9,233 | 7,920 | 9,979 | 1,505 |
| EBITDA margin, % | 16% | 11% | 14% | 3.4% |
| Net profit, LTL’000 | -113 | -1,525 | 73 | -6,042 |
| Net profit margin, % | -0.2% | -2.2% | 0.1% | -13.6% |
| | | | | |
| Return on assets, % (ROA) | -0.1% | -2.1% | 0.1% | -12.6 |
| Return on equity, % (ROE) | -0.5% | -6.7% | 0.3% | -36.1% |
| Profit per share, LTL | -0.01 | -0.15 | 0.01 | -0.61 |
| | | | | |
| Total assets, LTL’000 | 81,491 | 73,863 | 74,935 | 48,056 |
| Shareholders equity, LTL’000 | 24,347 | 22,706 | 22,779 | 16,737 |
| Long-term liabilities, LTL’000 | 36,999 | 32,939 | 24,332 | 17,468 |
| | | | | |
| Working capital, LTL’000 | 7,931 | 8,008 | 5,525 | 2,827 |
| Net change in cash flows, LTL’000 | 762 | -1,038 | -95 | -108 |
| | | | | |
| Investments, LTL’000 | 1,051 | 1,893 | 2,025 | 160 |
| Production volume, thousand m2 | 2,302 | 2,247 | 2,849 | 874 |
| | | | | |
| Number of employees (end of period) | 303 | 285 | 297 | 175 |
| Average salary, LTL/month | 2,101 | 2,602 | 2,605 | 2,260 |



Sales in 2009 decreased by 38.4 percent and amounted to 44.380 million Litas. The decrease of sales revenue was influenced by several reasons. In particular, the drop of construction volume therefore decrease of ceramic tiles market in Lithuania. The market decrease led to a fall down of sales prices and increased taxes influenced an increase of cost. In addition, a significant part of market in 2009 was sliced by the new market players from abroad and cheap tiles from China. All this inevitably led to a decrease in sales, including not only Lithuania but also other Baltic States, Eastern and Northern countries.

The Company earned 10 million LTL of gross profit during 2009, while in year 2008 the gross profit was 17.4 million LTL. Gross profit margin in 2009 amounted to 22% (Y2008: 24%). Gross profit margin level is influenced by changes in sales revenue structure, pricing and COGS. Sales prices are dependent on structure of customer and product variety, competitors' actions and consumer purchase power. COGS are dependent on level of exploitation of production capacity, and changes in prices of separate production costs items.

Operating loss for the year 2009 amounted to 5.5 million LTL (Y2008: 2.6 million LTL profit). The operating loss was influenced by the decreased purchase power of the main clients. Therefore the production capacity was not fully exploited.

Net loss for the year 2009 amounted to 6 million LTL, while in year 2008 the Company has earned the net profit of 0.1 million LTL. The major reasons of net loss - decreased sales, unavoidable costs associated with a reduction in production, such as paid reduction compensations to 130 redundant employees.

EBITDA in 2009 amounted to 1.5 million LTL or 3.4 percent of sales and decreased by 8.5 million LTL comparing to year 2008 (10 million LTL or 14 percent). Decrease in percentage of EBITDA margin was influenced by decreased revenue.

Working capital decreased by 48.9 percent and at the end of 2009 amounted 2.8 million LTL, while at the end of 2008 amounted 5.5 million LTL, company's liquidity ratio is 1.2, what shows that liquidity ratio is under control.

During 2009 year Company has produced 874 square meters of gres and ceramic tiles i.e. less by 69 percent compared with 2008. Regarding decreased demand for tiles, shareholders' has decided to stop Nasseti production line on January, 2009 and production has not been resumed. The remaining tile production line Sacmi capabilities have been used in 60%.

On 31.12.2009 there were 175 employees working in the Company. On 31.12.2008 – 297. Decrease in staff was related with suspension of one production line. The number of employees decreased proportionally in production and in administration. The average wage for one employee amounted to 2,260 LTL before taxes per month. In comparison to 2008 it decreased in 13%.

### 1.2. Specification of main risks which the Company encounter

Economical:

- Decline of construction sector has negative influence on potential of construction materials and products including ceramic tiles;
- Seasonality of construction sector – majority of works are done in warm period, although interior works partly are done in colder period as well;
- Competition – with growth of producers in Central and Eastern Europe, Russia and Ukraine competition is getting harder in foreign and domestic market;
- Substitutes – with rapid growth of producers of construction materials and wood products, there is increasing push down on prices;
- Price of resources – growth of prices for energy (gas), labour, money, transport makes achievement of the Company targets harder;
- Increase in imports – imports from Central Europe and Eastern Asia is constantly growing. It is influenced by the supermarkets, which are oriented to the price of production;
- Custom procedures – for the production sold outside the EU (e.g. CIS), high custom charges are applied, and they worsen the competitiveness of production imported into these markets;
- Certifications – foreign countries as a rule require quality certificates for the production planned to be sold to these markets. Dvarčionių Keramika posses all required certificates, however some of the countries lack continuity in their certification policies which create risk of temporary disruption of exports to these markets. Certification requirements as well as custom charges are means by which governments of foreign countries try to protect local producers.

Technical – technological:

- Prices of resources – forces constantly look for possibilities how to eliminate negative price effect – look for new suppliers, introducing new elements to composition of the product, implementation of innovative solutions;

- Price of energy – forces to look for more efficient exploitation of the resources (recuperation systems);

Ecological:

- The Company operates in accordance with the requirements of ISO 14001 standard.
- Waste which is generated as an outcome of production process is reprocessed by own specialised equipment;
- The Company has not received any fines or sanctions for 2009.

## 2. Analysis of financial and non-financial results, information associated with environment and personnel

### 2.1.1. Sales

In 2009 sales reached 44,4 millions LTL. In comparison to 2008 sales decreased by 38%. The tendency of decreasing sales was visible during all quarters of financial year.

Sales decrease was conditioned by lower quantity of sold production (in square meters) than in 2008. In 2009 sold nearly 1.7 million square meters of AB Dvarčionių Keramika tiles. Sales in square meters were 34 percent lower than during 2008. Average selling prices changed fractionally and increased in 1.2 percent. The increase of average sell prices was influenced by not proportionally decreased wholesale and retail sales. From own retail market the Company got less income by 29 percent during 2009 year than during 2008, while income from wholesale and export decreased by 42 percent.

The main sales market continues to remain Lithuania (65 percent of all sales), in which sales are made through 12 own shops, as well as through the wholesale network.

**Domestic sales**

Company's production is handled in all biggest construction material shops also in own brand shops. There are 12 own-brand retail shops in all the biggest Lithuanian cities. Own-branded shops sells not only Company's production, but also sanitary equipment, materials for tiles pasting, also the services of professional designer are provided there.

Sales in Lithuania in comparison to 2008 decreased by 19% from 35,8 million LTL to 29,0 million LTL. The main reasons for decreasing sales in Lithuania – the slowdown of growth rate of construction and real estate sector in the country.

**Export sales**

The Company's basic markets for sales are the Baltic states, in 2009 sales in these countries reached 34.0 million LTL and decreased in 15.2 million LTL (31%) compared with previous financial year. Sales in Latvia and Estonia declined 62 percent compared to 2008 and reached 5.0 million.

Exports to Belarus decreased by 9 percent and were 1.2 million during the 2009.

Sales in Russia decreased by 47 percent down to 2.8 million LTL although the company has strengthened its position in the Kaliningrad region.

### 2.1.2. Supply and logistics

The basic raw materials, packaging materials, stationery, household and other materials for Dvarčionių Keramika, AB supplies several suppliers. This reduces the dependence on suppliers, and enables a bargain for more favourable conditions for cooperation. Other specific materials, which are supplied by only one supplier, is considered safe reserve for a 4-weeks.

Transport and other services supplies companies selected during competition. This allows the company to achieve the optimum price-quality ratio.

Reducing the risk of suppliers, with the main of them are signed long term contracts. Suppliers of alternative raw materials, materials and services are chosen and explored. The list of main suppliers is being confirmed four times per year, which is drawn up taking into account the economic environment changes.

The suppliers are being selected taking into account the reliability, financial results, recommendations of the partners, materials delivery and service quality, transportation costs, environmental requirements and reporting of production conditions. The biggest part of raw materials, new designs of products for Dvarčionių Keramika, AB are supplied by well known and recognized companies in the world of ceramics: Iris-group, Fritta S.L., Ferro S.L. Quimicer. With most of these companies, the Company has been working for approximately ten years. Long-term co-operation can save you a lot of time introducing new, advanced products, for the exchange of relevant information, improving the production and logistics processes.

With gas and electricity suppliers has signed a long-term cooperation agreements.

The equipment for production was purchased from the well-known foreign manufacturers. Good, productive relationships with manufacturers allow the purchase of equipment and spare parts to them on favourable market conditions and ensure their timely delivery.

In 2009 was improved stores farm work (updated software, automated warehouses, introduced an effective system of staff motivation). It increased the efficiency of logistics department, the flexibility of the Company to respond rapidly to market changes.

### 2.1.3. Production

**Production volume**

In 2009 Dvarčionių Keramika, AB produced 874 thousand square meters of tiles, when in 2008 production volume was 2,849 thousand square meters. The production volume is divided as following: wall tiles 45 percent, gres tiles – 55%.

**Innovations to new products**

In year 2009 ARDERO 450x450 mm collection was presented, which complements during 2008 presented new gres floor tile size - 450x450 mm. The development of new collections of 25x40 mm, 20X25 mm, 29x29 mm, 45x45 mm size was also continuing in year 2009.

### 2.1.4. Management of quality and environment issues

**Quality and Environment Safety management system**

Dvarčionių Keramika AB activity is based on quality and environment safety management ISO9001 & ISO14001 standard requirements. Quality management system was implemented and certified in 1999 and environment safety management system – in 2002.

**Quality and Environment Safety foreign auditing and results**

On August, 2008 Det Norske Veritas UAB performed periodic ISO 9001 & ISO 14001 quality and environment safety management foreign audit and issued certificates No. 37667-2008-AQ-FIN-FINAS, No. 37669-2008-AE-FIN-FINAS. On September, 2009 Det Norske Veritas UAB performed routine maintenance audits. No signs of non-conformance were found.

**Certified Experimental Lab**

Dvarčionių Keramika AB Certified Experimental Lab certified in 1999.
Accreditation gives the right to the laboratory to issue to its products EC declarations of conformity in accordance with LST EN 14411 standard.

Supervision audit performed by National certification bureau in December, 2008 certified Lab conformity to renewed EN ISO/IEC 17025:200 standard requirements and plans next audit on the first half of 2010.

The test laboratory of Dvarčionių Keramika, AB is accredited and re-issued a new accreditation certificate number. LA.01.025.
During 2009 Dvarčionių Keramika AB Certified experimental lab issued 19 experimental protocols and took part in inter-laboratory comparative experiments together with VGTU Thermo insulation institute, Construction material laboratory.

### 2.1.5. Human resources

**Employees**

On the 31$^{st}$ of December, 2009, there were 175 employees in the company while 297 - at the end of 2008.

Distribution of Employee job positions at Dvarčionių Keramika AB:

**Employee education**

| | Workforce 31.12.2008 | Workforce 31.12.2009 |
|---|---|---|
| University | 86 | 48 |
| College | 64 | 34 |
| Professional schools | 109 | 58 |
| High school | 38 | 35 |
| **TOTAL:** | **297** | **175** |

**Distribution of Employee job positions**

| | Workforce 31.12.008 | Workforce 31.12.2009 |
|---|---|---|
| Managers | 23 | 11 |
| Specialist | 92 | 74 |
| Workers | 182 | 90 |
| **TOTAL:** | **297** | **175** |

More than 52% of entire company employees work over 5 years within the company.

**Collective agreement**

Collective agreement defines relationship employees, employed by the company on the employment contracts, agreements between Union and the Company relating to working, payment, administration, safety, working and the off days schedules as well as other social and economical conditions.

Company's management cooperates with the trade union, provide information, discussing the company's business issues.

**Training & Development**

The essential for company successful activities – creative and continuously developed employees, that are not afraid of responsibility for the decisions taken and continuous search for the best and new work implementation forms, effective problem solving ways. Employees participate in the training project "Training of senior and middle level management of industrial leading companies to increase cooperation and competitiveness in the

international context of companies with the largest economic potential" which is financed by the European Social Fund and the Confederation of Lithuanian Industrialists.
Employee training and qualification is based on company Quality management system ISO 9001 procedures. 20% of company employees took part and been trained. Not only open trainings are offered but also in house trainings are popular for sharing the professional knowledge within company sectors.

**Work and Health safety**

There are suitable and safe working conditions in the company. There weren't serious accidents at work places.

## 3. Links and extra clarifications about data in financial statement

As reported in the financial statements.

## 4. Quantity of all existing and acquired shares of company and their par value and the part of regulation capital, which compose these shares

Authorized capital registered in the register of enterprises – 19,810,920 LTL
Capital is divided by 9,905,460 ordinary registered shares.
Par value of 1 share - 2 LTL
All shares of company are completely paid.

## 5. The company's own shares acquired or transferred during the accountable financial year and their par value and the part of regulation capital, which compose these shares

No shares were acquired or transferred during financial year.

## 6. Information about the payment of own shared if the was acquired or transferred for payment

No shares were acquired or transferred during financial year.

## 7. Reason of acquisition of own shares during the accountable financial year

None.

## 8. Information about company's branches and agencies

The Company does not have branches or representative offices.

## 9. Important events of the company during the accountable financial year

On 13 July 2009, a Lithuanian capital company UAB Misota became the main shareholder of Dvarčionių Keramika AB, having acquired 9,137,525 (92.25 per cent) of ordinary registered shares. In the same year, having announced a compulsory non-competitive official tender, UAB Misota additionally purchased 68,503 (0.69 per cent) of shares, and as of 26 November 2009 it owns 9,206,028 (92.93 per cent) of ordinary registered shares.

## 10. Company's activity plans and forecasts

The Company does not announce its plans and forecasts.

## 11. Information about the research and the development activity.

The Company has not conducted any research and development activity.

## 12. When the Company uses financial derivatives and when it is important for valuation of the Company's assets, shareholders equity, liabilities, financial status and results, the company disclose the goals of financial risk management, used hedging instruments which are accounted as such for main groups of planned transactions as well as extent of pricing risk, liquidity risk and cash flow risk.

The Company's financial instruments, which are important in assessing the company's assets, equity, liabilities, financial condition and results of operations were not used.

## Disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market

The public company Dvarčionių Keramika AB, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLICABLE | COMMENTARY |
|---|---|---|
| **Principle I: Basic Provisions**<br><br>**The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.** | | |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | No | The Company has prepared development strategy, which is not announced in public. |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes | |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Yes | |
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. | Yes | The Company seeks to ensure rights of all major stakeholders. |
| **Principle II: The corporate governance framework**<br>**The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.** | | |
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | Yes | Its governing bodies are: general meeting of shareholders, Management Board and chief executive officer. |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the | Yes | Company's collegial management body is Management Board. |

| | | |
|---|---|---|
| company's management bodies. | | |
| 2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. | Not applicable | |
| 2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. | No | |
| 2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. | Yes | The Management Board comprise of 5 members. |
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board. | No | |
| 2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision. | No | |

| **Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting**<br><br>**The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.** | | |
|---|---|---|
| 3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. | No | |
| 3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. | Yes | The Company keeps in line with this recommendation. |
| 3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body. | Yes | The Company keeps in line with this recommendation. |
| 3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. | Yes | The Company's collegial body possesses the qualifications necessary in their field of activity. |

| | | |
|---|---|---|
| 3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge. | No | |
| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members. | No | |
| 3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:<br>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;<br>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;<br>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); | No | The Company's financial statements disclose the related parties' transactions as required by the international financial reporting standards. Transactions between the related parties are made in line with arm's length principle.<br>No other means to valuate the independence of members of governing bodies are applied because they are not specified in any of the internal documents of the Company. |

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| 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);<br><br>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;<br><br>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;<br><br>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;<br><br>8) He/she has not been in the position of a member of the collegial body for over than 12 years;<br><br>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. | | |
| 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. | No | The Company has not specified the determination of what constitutes independence. |

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| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | No | |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | No | |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration. | Not applicable | |
| **Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting**<br><br>**The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.** | | |
| 4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. | Yes | |
| 4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he | Yes | The Company keeps in line with the recommendations. |

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| should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | | |
| 4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified. | Yes | The Company keeps in line with the recommendations. The members take active role in meetings, devote sufficient time and attention to perform his duties. |
| 4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders. | Yes | The Company keeps in line with the recommendations. |
| 4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision. | Yes | Transactions between the Company and its shareholders, members of the Management Board and Supervisory Council and other natural or legal persons that exert or may exert influence on the company's management are made in approved according the procedures specified in the Articles of the Company. |
| 4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. | Yes | |
| 4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be | Yes | |

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| considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole. | | |
| 4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence. | No | |
| 4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. | No | |
| 4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on | No | |

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| their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion. | | |
| 4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities. | No | |
| 4.12. Nomination Committee.<br><br>4.12.1. Key functions of the nomination committee should be the following:<br><br>1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;<br><br>2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;<br><br>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;<br><br>4) Properly consider issues related to succession planning;<br><br>5) Review the policy of the management bodies for selection and appointment of senior management. | No | |
| 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled | | |

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| to submit proposals to the nomination committee. | | |
| 4.13. Remuneration Committee. | No | |
| 4.13.1. Key functions of the remuneration committee should be the following:<br><br>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br><br>2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br><br>3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;<br><br>4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);<br><br>5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. | | |
| 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:<br>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;<br>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;<br>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. | | |

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| 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. | | |
| 4.14. Audit Committee.<br><br>4.14.1. Key functions of the audit committee should be the following:<br><br>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);<br><br>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;<br><br>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;<br><br>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;<br><br>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the | No | The Company has no internal committees for the purpose of monitoring the efficiency of the activities. |

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| committee;<br><br>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.<br><br>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.<br><br>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.<br><br>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.<br><br>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.<br><br>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.<br><br>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. | | |

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| 4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. | Yes | The collegial body conducts the assessment of its activities. |
| **Principle V: The working procedure of the company's collegial bodies**<br><br>**The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.** | | |
| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting. | Yes | The Company keeps in line with the recommendation. |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month. | Yes | The Company keeps in line with the recommendation. |
| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great | Yes | The Company keeps in line with the recommendation. |

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| importance to the company require immediate resolution. | | |
| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed. | Yes | The Company keeps in line with the recommendation. |
| **Principle VI: The equitable treatment of shareholders and shareholder rights**<br><br>**The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.** | | |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | Yes | The company's capital consists only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company keeps in line with the recommendation. |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | Yes | Transactions are made on the basis prescribed in the Company's Articles. |
| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them. | Yes | Procedures of convening and conducting a general shareholders' meeting ensure equal opportunities for the shareholders to effectively participate at the meetings and not prejudice the rights and interests of the shareholders. |
| 6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents | Yes | Resolutions are publicly announced only using Stock exchange information system and in press. Also the resolutions are announced in the web page of the Company. |

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| referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | | |
| 6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | The Company keeps in line with recommendation. |
| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies. | No | |
| **Principle VII: The avoidance of conflicts of interest and their disclosure**<br><br>**The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.** | | |
| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes | The Company tries to stay in line with the recommendation. |
| 7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting. | Yes | |
| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, | Not applicable | |

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| by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | | |
| 7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on. | Not applicable | There were no such cases in 2009. |
| **Principle VIII: Company's remuneration policy**<br><br>**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.** | | |
| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website. | No | No such practice has been used in the Company. |
| 8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year. | No | No such practice has been used in the Company. |
| 8.3. Remuneration statement should leastwise include the following information:<br>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;<br>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;<br>3) Sufficient information on the linkage between the remuneration and performance;<br>4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;<br>5) A description of the main characteristics of supplementary pension or early retirement schemes for directors. | No | No such practice has been used in the Company. |
| 8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies. | No | No such practice has been used in the Company. |

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| 8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. | No | |
| 8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory. | No | No such practice has been used in the Company. |
| 8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. | No | The Company discloses general payments to the Board and Council in the explanatory notes of the financial statements. |
| 8.7.1. The following remuneration and/or emoluments-related information should be disclosed:<br>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;<br>2) The remuneration and advantages received from any undertaking belonging to the same group;<br>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;<br>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;<br>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;<br>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. | | |
| 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:<br>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;<br>2) The number of shares options exercised during the relevant financial year and, for each of them, | | |

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| the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;<br>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;<br>4) All changes in the terms and conditions of existing share options occurring during the financial year. | | |
| 8.7.3. The following supplementary pension schemes-related information should be disclosed:<br>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;<br>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. | | |
| 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate. | | |
| 8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. | No | No such practice has been used in the Company. |
| 8.9. The following issues should be subject to approval by the shareholders' annual general meeting:<br>1) Grant of share-based schemes, including share options, to directors;<br>2) Determination of maximum number of shares and main conditions of share granting;<br>3) The term within which options can be exercised;<br>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;<br>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms.<br>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. | No | |

| | | |
|---|---|---|
| 8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval. | No | |
| 8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting. | | |
| 8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website. | | |
| **Principle IX: The role of stakeholders in corporate governance**<br><br>**The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.** | | |
| 9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. | Yes | The corporate governance framework assures that the rights of stakeholders that are protected by law are respected. |
| 9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in | Yes | |

| | | |
|---|---|---|
| governance in the context of the company's insolvency, etc. | | |
| 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | Yes | |
| **Principle X: Information disclosure and transparency**<br><br>**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.** | | |
| 10.1. The company should disclose information on:<br>1) The financial and operating results of the company;<br>2) Company objectives;<br>3) Persons holding by the right of ownership or in control of a block of shares in the company;<br>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;<br>5) Material foreseeable risk factors;<br>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br>7) Material issues regarding employees and other stakeholders;<br>8) Governance structures and strategy.<br>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. | Yes | The Company keeps in line with recommendation. |
| 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. | | |
| 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. | | |
| 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure. | | |

| | | |
|---|---|---|
| 10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions. | Yes | The Company provides information in English and Lithuanian, both at the same time. Upon receipt, information is announced in the stock exchange information system. The Company tries to announce essential information in non trade time – before or after trade sessions. No comments, interview or by any other means essential information is provided before it becomes public through official stock exchange information system. |
| 10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well. | Yes | The Company sends information to the Stock exchange and Securities Commission, and later with some comments to the mass media. At the same time information is placed in the official website of the Company. The Company provides information in English and Lithuanian. |
| 10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too. | Yes | The Company has updated its web site and announces information specified in the clause 10,7. |
| **Principle XI: The selection of the company's auditor**<br><br>**The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.** | | |
| 11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | Yes | |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting. | No | Candidate audit company is proposed by the Management Board. |
| 11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting. | Not applicable | Audit company has not provided any service except audit itself. Therefore no additional fees have been paid. |

During the period from 1 January 2009 to 8 July 2009, supervision of the activities of the Company was carried out by the supervisory board of the Company. On 8 July 2009, members of the supervisory board of the Company resigned, therefore, from 8 July 2009 to 1 January 2010 functions of the supervisory board actually were not executed. By a decision of the shareholders of the Company, as of 9 February 2010 the supervisory board, as a body carrying out the supervision of the activity of the Company, has been canceled.

President
Audris Imbrasas

7 April 2010

# Statement of financial position

As at 31 December

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | 5 | 29,872 | 40,480 |
| Intangible assets | 6 | 17 | 53 |
| Trade and other receivables | | 6 | 10 |
| Investment property | 7 | 1,183 | 743 |
| Investments in associates | 8 | 300 | 300 |
| **Total non-current assets** | | **31,378** | **41,586** |
| Inventories | 9 | 11,258 | 24,798 |
| Current tax assets | | 116 | 0 |
| Trade and other receivables | 10 | 5,196 | 8,335 |
| Cash and cash equivalents | 11 | 108 | 216 |
| **Total current assets** | | **16,678** | **33,349** |
| **TOTAL ASSETS** | | **48,056** | **74,935** |
| **EQUITY** | | | |
| Share capital | 12 | 19,811 | 19,811 |
| Legal reserve | 12 | 125 | 125 |
| Revaluation reserve | | 2,902 | 3,594 |
| Retained earnings | | (6,101) | (751) |
| **Total equity** | | **16,737** | **22,779** |
| **LIABILITIES** | | | |
| Loans and Borrowings | 14 | 16,888 | 23,029 |
| Finance lease liabilities | 15 | 269 | 396 |
| Deferred tax liabilities | 27 | 311 | 907 |
| **Total non-current liabilities** | | **17,468** | **24,332** |
| Loans and borrowings | 14 | 6,636 | 10,749 |
| Finance lease liabilities | 15 | 125 | 213 |
| Factoring liabilities | | - | 47 |
| Trade payables | 17 | 5,040 | 14,097 |
| Prepayments | | 126 | 260 |
| Other payables and accrued expenses | 18 | 1,924 | 2,458 |
| **Total current liabilities** | | **13,851** | **27,824** |
| **Total liabilities** | | **31,319** | **52,156** |
| **TOTAL EQUITY AND LIABILITIES** | | **48,056** | **74,935** |

*The notes on pages 38 to 65 are an integral part of these financial statements.*

These financial statements were approved on 7 April 2010 and signed by:

President
Audris Imbrasas

Chief Accountant
Vanda Kalpokienė

# Statement of comprehensive income

For the year ended 31 December

| | Notes | 2009 | 2008 |
|---|---|---|---|
| Revenue | 19 | 44,380 | 72,026 |
| Cost of sales | 20 | (34,422) | (54,647) |
| **Gross profit** | | **9,958** | **17,379** |
| Other income | 21 | 3,248 | 560 |
| Selling expenses | 22 | (7,295) | (11,024) |
| Administrative expenses | 23 | (11,391) | (4,323) |
| **Result from operating activities** | | **(5,480)** | **2,592** |
| Finance income | 25 | 3 | 13 |
| Finance cost | 25 | (1,171) | (2,387) |
| **Net finance cost** | | **(1,168)** | **(2,374)** |
| **Profit (loss) before income tax** | | **(6,648)** | **218** |
| Income tax expense | 27 | 606 | (145) |
| **Profit (loss) for the period** | | **(6,042)** | **73** |
| **Other comprehensive income** | | **-** | **-** |
| **Total comprehensive income for the period** | | **(6,042)** | **73** |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (in LTL) | 13 | (0.61) | 0.01 |

*The notes on pages 38 to 65 are an integral part of these financial statements.*

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President
Audris Imbrasas

Chief Accountant
Vanda Kalpokienė

# STATEMENT OF CHANGES IN EQUITY

| | Notes | Share capital | Legal reserve | Revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2008** | | **19,811** | **125** | **3,945** | **(1,175)** | **22,706** |
| Profit (loss) | | - | - | - | 73 | 73 |
| Decrease in revaluation reserve due to depreciation or write-off of revalued assets | | - | - | (351) | 351 | - |
| Other comprehensive income | | - | - | - | - | - |
| **Balance at 31 December 2008** | | **19,811** | **125** | **3,594** | **(751)** | **22,779** |
| | | | | | | |
| **Balance at 1 January 2009** | | **19,811** | **125** | **3,594** | **(751)** | **22,779** |
| Profit (loss) | | - | - | - | (6,042) | (6,042) |
| Decrease in revaluation reserve due to depreciation or write-off of revalued assets | | - | - | (692) | 692 | - |
| Other comprehensive income | | - | - | - | - | - |
| **Balance at 31 December 2009** | | **19,811** | **125** | **2,902** | **(6,101)** | **16,737** |

*The notes on pages 38 to 65 are an integral part of these financial statements.*

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President
Audris Imbrasas

Chief Accountant
Vanda Kalpokienė

# STATEMENT OF CASH FLOW

For the year ended 31 December

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| **Profit (loss) for the year** | | **(6 042)** | **73** |
| Adjustments for: | | | |
| Depreciation and amortization | 5,6 | 6,985 | 7,387 |
| Net result of disposal and write-off of property, plant and equipment | 21 | (2,683) | 83 |
| Impairment losses on property, plant and equipment | 5,6 | 2,015 | - |
| Impairment losses on trade receivables | 10 | 320 | 96 |
| Write off of inventory to net realizable value | 9 | 269 | (240) |
| Interest, net | 25 | 982 | 2,374 |
| Income tax expense | 27 | (606) | 145 |
| | | **1,240** | **9,918** |
| Change in inventories | 9 | 13,271 | (5,693) |
| Change in trade and other receivables | 10 | 2,823 | (1,391) |
| Change in trade payables | 17 | (9,057) | 1,782 |
| Change in prepayments | | (134) | (53) |
| Change in other payables and accrued expenses | | (128) | (85) |
| | | **6,775** | **(5,440)** |
| Interest paid | | (985) | (2,304) |
| Income taxes paid | | (512) | (181) |
| **Net cash from operating activities** | | **6,518** | **1,993** |
| **Cash flows from investing activities:** | | | |
| Acquisitions of property, plant and equipment | 5 | (157) | (1,419) |
| Acquisitions of intangible assets | 6 | (3) | (21) |
| Proceeds from sale of property, plant and equipment | | 4,047 | 637 |
| Interest received | | 3 | - |
| **Net cash from/used in investing activities** | | **3,890** | **(803)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from (repayments of) borrowings, net | 14 | (10,254) | (1,048) |
| Repayments of finance lease | 15 | (215) | (200) |
| Factoring financing decrease | | (47) | (37) |
| **Net cash used in financing activities** | | **(10,516)** | **(1,285)** |
| **Net decrease in cash and cash equivalents** | | **(108)** | **(95)** |
| **Cash and cash equivalents at 1 January** | 11 | **216** | **311** |
| **Cash and cash equivalents at 31 December** | **11** | **108** | **216** |

*The notes on pages 38 to 65 are an integral part of these financial statements.*

These financial statements were approved on 7 April 2010 and signed by:

President
Audris Imbrasas

Chief Accountant
Vanda Kalpokienė

# EXPLANATORY NOTES

## 1. Reporting entity

AB Dvarčionių Keramika (the Company) was registered on 10 June 1994. Company's code 110628481. The Company's head office is located Keramikų str. 2, LT-10233 Vilnius, Lithuania.

The Company is the largest and most advanced producer of ceramic tiles in the Baltic countries.

At 31 December 2009 there were 175 employees in the Company (2008: 297).

Shares of Dvarčionių Keramika AB are quoted in NASDAQ OMX Vilnius Stock Exchange.

## 2. Basis of preparation

***Statement of compliance***

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

The Board of Directors has authorised the annual report for issue on 7 April 2010 and approved the financial statements on behalf of the Company.

The shareholders of the Company have a statutory right to either approve these financial statements or not to approve them and require the management to prepare a new set of financial statements.

***Basis of measurement***

The financial statements have been prepared on the historical cost basis except for property, plant and equipment stated at revalued amount.

***Functional and presentation currency***

The financial statements are presented in the national currency of Lithuania - Litas (LTL), which is the Company's functional currency.

***Use of estimates and judgements***

The preparation of the financial statements in conformity with IFRS, as adopted by the European Union, requires the Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are discussed below.

<u>Market uncertainties</u>

The ongoing global liquidity crisis resulted in, among other things, a lower liquidity levels in economy, a lower level of capital market funding and lower liquidity. In addition to that, Lithuania has been experiencing economic downturn which has affected, and may continue to affect, the activities of enterprises operating in this environment. These financial statements reflect management's assessment of the impact of the Lithuanian and global business environment on the operations and the financial position of the Company. The future developments in business environment may differ from the Management's assessment.

<u>Useful lives of property, plant and equipment</u>

Asset useful lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned.

<u>Impairment of property plant and equipment</u>

The Company makes an assessment, at least annually, whether there are any indicators that property plant and equipment have suffered impairment. If that is the case, the Company makes an impairment test in accordance with the accounting policy set out in note 3.
Information about assumptions regarding the recoverability of the property, plant and equipment is included in note 5.

Impairment of investments to associates
Since the shares of the associated entity are not listed, the Company estimated the recoverable value of these investments based on the carrying value of the Company's share in the associate's net assets, which approximates its fair value as of 31 December 2009 based on the judgement of the management.

Impairment of receivables
The Company makes an assessment, at least annually, whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, international or local economic conditions that influence the group of the receivables.

The management evaluates probable cash flow from the debtors based on historical loss experience related to the debtors with a similar credit risk. Methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Utilisation of tax losses
Information about assumptions regarding the utilisation of tax losses is included in note 27.

***Change in accounting policies***
The accounting policies adopted are consistent with those of the previous year except that the Company adopted those new/revised standards and interpretations becoming mandatory for the financial years beginning on or after 1 January 2009 and applicable to the Company's operations.

Presentation of financial statements
The Company applies revised IAS 1 'Presentation of Financial Statements' (2007), which became effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

The Company has elected to present a combined statement of comprehensive income, including all components of profit or loss and other comprehensive income.

Comparative information has been presented so that it also is in conformity with the revised standard. Since the change in the accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Determination and presentation of operating segments
As of 1 January 2009 the Company determines and presents operating segments based on the information that internally is provided to the CEO, who is the Company's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 2, which addresses changes in accounting policies.

***Foreign currency***

Transactions in foreign currencies are translated into Litas at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Litas at the exchange rate ruling at that date. Gains and losses arising due to exchange rate differences are included in net profit or loss for the period. The applicable rates used for the principal currencies as of 31 December were as follows:

| | 2009 | 2008 |
|---|---|---|
| USD | 2.4052 | 2.4507 |
| EUR | 3.4528 | 3.4528 |
| PLN | 0.83536 | 0.83326 |

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction.

***Financial instruments***

***Non-derivative financial assets***

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

According to IAS 39 Financial Instruments: Recognition and Measurement, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables. Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

***Non-derivative financial liabilities***

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

***Derivative financial instruments***

Derivatives are recognized initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for in profit or loss.

The Company did not hold any investments in this category during the period.

***Investments in associates***

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associated company are stated at cost less impairment losses recognized, where the investment's carrying amount exceeds its estimated recoverable amount in the Company's statement of financial position.

***Property, plant and equipment***

Property, plant and equipment are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluated amount is the fair value at the date of the revaluation, which was carried out on 30 April 2005 by independent appraisers. Property, plant and equipment are revalued each 5 years.

Depreciation is accounted for on the straight-line basis over the estimated useful lives of the related asset. Revalued assets are depreciated over their remaining lives.

Depreciation is provided in equal monthly instalments except for the month placed in service over the expected useful lives as follows:

| | |
|---|---|
| Buildings | 7 – 60 years |
| Plant and equipment | 2 – 20 years |
| Vehicles | 8 – 20 years |
| Other equipment | 2 – 15 years |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of tangible assets are determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

***Intangible assets***

Intangible assets are stated at historical cost, less accumulated amortization and accumulated impairment losses.
Amortisation is charged on a straight-line basis to write off the cost of each asset over the estimated useful life of 3 years.

**Investment property**

Investment property of the Company, which consists of investments in buildings held to earn rental revenue, initially is recognized at acquisition cost. Subsequently all investment property is carried at cost less accumulated depreciation and impairment loss.

Transfers to and from investment property are made only when there is an evidence of change in an asset's use.

***Emission rights***

The EU Emission Allowance Trading Scheme was established by Directive 2003/87/EC and commenced on 1 January 2005. The first phase ran for the three-year period from 2005 to 2007; the second runs for five years from 2008-2012 to coincide with the first Kyoto Commitment Period. The scheme works on a 'Cap and Trade' basis. EU Member States' governments are required to set an emission cap for each phase for all 'installations' covered by the Scheme. This cap is established in the National Allocation Plan (NAP), which is issued by the relevant authority in each Member State. The NAP describes the amount of yearly emissions (measured in tones of carbon dioxide equivalents) permitted per installation for each phase for which allowances will be allocated on an annual basis.

Member States are required to allocate allowances to installations by 28 February each year according to the NAP (a certain number of allowances are kept in reserve for new installations).
Member States must ensure that by 30 April of the following year at the latest, that the operator of each installation surrenders a number of allowances equal to the total emissions from that installation during the preceding calendar year.

When the Company has sufficient allowances to meet its obligations, the net approach is applied, the amount of the provision is equal to the costs of the assets and neither the asset nor the provision is presented on the statement of financial position.

In case the Company is 'short' of allowances, the liability is recognised in the statement of financial position being the best estimate of the expenditure (economic resources) required to settle the emission obligation.

***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of relevant lease.

The Company as lessee

Assets held under finance leases are recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged directly to the statement of comprehensive income.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease.

***Inventories***

Inventories are stated at the lower of cost or net realizable value. The First–In, First-Out method is used as a basis for calculating the cost. The cost of work in progress and finished goods comprises of raw materials, direct labour cost, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

***Impairment***

*Financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

*Non-financial assets*
The carrying amounts of the Company's non-financial assets other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

***Employee benefits***
The Company does not have any adopted defined contribution and benefit plans and has no share based payment schemes. Post employment obligations to employees retired on a pension are borne by the State.

***Revenue recognition***
Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods
Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of services
Sales of services are recognised on performance of the services.

***Finance income and finance costs***
Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the statement of comprehensive income using the effective interest method.
Foreign currency gains and losses are reported on a net basis.

***Income tax***
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except items recognised directly in equity or in other comprehensive income.
Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not calculated for temporary differences recorded at the moment of initial recognition of assets or liabilities when such differences affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected

to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

***Earnings per share***

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

***Contingencies***

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits are probable.

***Related parties***

Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the Company, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

***Subsequent events***

Subsequent events that provide additional information about the Company’s position at the balance sheet date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

***Determination of fair values***

A number of the Company’s accounting policies and disclosures require the determination of fair value. Fair value is defined as the estimated amount for which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The management of the Company is of the opinion that carrying amounts of trade and other receivables, trade and other payables as well as borrowings approximate their fair value.

***New standards and interpretations not yet adopted***

Other than those adopted as explained in note 2, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements. Below is the estimate of the Company's management regarding the potential effect of the new and revised standards and interpretations upon their first-time application.

*Amended IFRS 3 "Business Combinations"*

Amendment to IFRS 3 is effective for annual periods beginning on or after 1 July 2009. The Standard's scope of application was amended and the description of the purpose was expanded. Revised IFRS 3 is not relevant to the Company’s financial statements as the Company does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

*Amended IAS 32 "Financial Instruments: Presentation"*

Amended IAS 32 is effective for annual periods beginning on or after 1 February 2010. The amendment requires that rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Company’s financial statements as the Company has not issued such instruments at any time in the past.

*Amended IAS 39 "Financial Instruments: Recognition and Measurement"*

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. Amended IAS 39 is effective for annual periods beginning on or after 1 July 2009. The amendments to IAS 39 are not relevant to the Company’s financial statements as the Company does not apply hedge accounting.

*IFRIC 12 "Service Concession Arrangements"*

The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is effective for first annual reporting period beginning on or after 1 April 2009. IFRIC 12 is not relevant to the Company’s operations as the Company has not entered into any service concession arrangements.

*IFRIC 15 "Agreements for the Construction of Real Estate"*

IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognized by reference to the stage of completion of the contract activity in the few defined cases. In all other cases, revenue is recognized when all of the revenue recognition criteria of IAS 18.14 are satisfied. IFRIC 15 is not relevant to the Company’s financial statements as the Company does not provide real estate construction services or develop real estate for sale.

*IFRIC 17 "Distributions of Non-cash Assets to Owners"*

The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognized in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognized in profit or loss.

IFRIC 17 is effective for annual periods beginning on or after 15 July 2009. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.

*IFRIC 18 "Transfers of Assets from Customers"*

The Interpretation requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the transferred item meets the criteria for property, plant, and equipment in IAS 16, Property, Plant and Equipment. The Interpretation also requires the entity to recognize the amount as revenue; the timing of revenue recognition depends on the facts and circumstances of the particular arrangement. IFRIC 18 is effective prospectively for annual periods beginning on or after 1 November 2009. IFRIC 18 is not relevant to the Company’s financial statements as the Company does not normally receive contributions from customers.

Further to those listed above, there were also amendments in *IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009) and IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 July 2009);* however, this standard and interpretation are not relevant to the Company's financial statements as the Company does not hold any investments in subsidiaries or foreign operations.

## 4. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- capital management.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Management has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company has no significant credit risk concentration, because credit risks are allocated to numerous customers.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance for impairment includes only specific loss, related to individually significant trade and other receivables.

The maximum exposure to credit risk for trade and other receivables at the reporting date by customers could be specified as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Amount receivable** | **Share, %** | **Amount receivable** | **Share, %** |
| 1. Customer 1 | 1,062 | 20% | 488 | 6% |
| 2. Customer 2 | 665 | 13% | 630 | 8% |
| 3. Customer 3 | 468 | 9% | 623 | 7% |
| 4. Customer 4 | 299 | 6% | 205 | 3% |
| 5. Customer 5 | 285 | 5% | 503 | 6% |
| 6. Customer 6 | 246 | 5% | 1,021 | 12% |
| Other customers and other receivables | 2,171 | 42% | 4,865 | 58% |
| **Total** | **5,196** | **100%** | **8,335** | **100%** |

The maximum exposure to credit risk for trade receivables as at the reporting date by geographic region could be specified as follows:

| | **2009** | **2008** |
|---|---|---|
| Lithuania | 2,711 | 3,605 |
| Euro-zone countries | 1,137 | 1,265 |
| Ukraine | 249 | 1,361 |
| Belarus | 317 | 245 |
| Russia | 782 | 1,806 |
| Other countries | - | 53 |
| **Total** | **5,196** | **8,335** |

The ageing of trade receivables as at the reporting date could be specified as follows:

| | **2009** | | **2008** | |
|---|---|---|---|---|
| | **Gross** | **Impairment** | **Gross** | **Impairment** |
| Not overdue | 174 | | 80 | |
| Overdue 0-30 days | 3,998 | | 6,711 | |
| Overdue 31-60 days | 245 | | 1,215 | |
| Overdue 61-90 days | 143 | | 166 | |
| More than 91 days | 1,069 | 433 | 276 | 113 |
| **Total** | **5,629** | **433** | **8,448** | **113** |

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The liquidity risk is managed by planning the cash flows of the Company. In order to minimize the liquidity risk, cash flow forecasts are prepared.

The following are the contractual maturities of liabilities, including estimated interest payments:

| | **Carrying amount** | **Contractual cash flows** | **6 months or less** | **6-12 months** | **2-5 years** |
|---|---|---|---|---|---|
| **At 31 December 2009** | | | | | |
| Loans and borrowings | 23,524 | (24,604) | (3,280) | (3,281) | (18,042) |
| Finance lease liabilities | 394 | (411) | (67) | (67) | (278) |
| Trade payables | 5,040 | (5,040) | (5,040) | | |
| Prepayments | 126 | (126) | (126) | | |
| Other payables and accrued expenses | 1,924 | (1,924) | (1,924) | | |
| **Total** | **31,008** | **(32,105)** | **(10,437)** | **(3,348)** | **(18,320)** |
| **At 31 December 2008** | | | | | |
| Loans and borrowings | 33,778 | (36,153) | (8,244) | (3,305) | (24,604) |
| Finance lease liabilities | 609 | (647) | (169) | (67) | (411) |
| Factoring liabilities | 47 | (48) | (48) | | |
| Trade payables | 14,097 | (14,097) | (14,097) | | |
| Prepayments | 260 | (260) | (260) | | |
| Other payables and accrued expenses | 2,458 | (2,458) | (2,458) | | |
| **Total** | **51,249** | **(53,663)** | **(25,276)** | **(3,372)** | **(25,015)** |

***Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

***Interest rate risk***

The Company's borrowings are subject to variable interest rates related to EURIBOR and LIBOR EUR. As at 31 December 2009, the Company did not use any financial instruments to hedge its exposure to the cash flow risk related to debt instruments with variable interest rates or price risk related to debt instruments with fixed interest rates.

Variable interest rate financial liabilities were as follows:

| | Contractual currency | 2009 | 2008 |
|---|---|---|---|
| Loans and borrowings | EUR | 23,524 | 29,170 |
| Overdraft | EUR | - | 4,608 |
| Finance lease liabilities | EUR | 394 | 609 |
| Factoring liabilities | EUR | - | 47 |
| **Total** | | **23,918** | **34,434** |

The interest rate as to the agreements is from 1.71% to 5.57% (2008: from 4.24% to 5.57%).

A change in average annual interest rate for the Company's borrowings by 1 percentage point would have increased/decreased the interest expenses and the result for the year ended 31 December 2009 would have decreased/increased by approximately 212 thousand Litas.

***Currency risk***

The functional currency of the Company is Litas (LTL). The Company faces foreign currency risk on purchases and borrowings as well as on sales and amounts receivable that are denominated in currencies other than Litas. The risk related to transactions in EUR is considered to be insignificant as the Lithuanian Litas is pegged to EUR at a fixed rate. Changes to this peg could occur if the government macroeconomic policy changes.

During the year, currency exchange rates in respect of Litas were as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | 31 December | Average | 31 December | Average |
| 1 EUR | 3.4528 | 3.4528 | 3.4528 | 3.4528 |
| 1 USD | 2.4052 | 2.4828 | 2.4507 | 2.3569 |
| 1 PLN | 0.8354 | 0.7998 | 0.8333 | 0.9868 |

The Company's exposure to foreign currency risk was as follows:

| | LTL | EUR | USD | PLN |
|---|---|---|---|---|
| **31 December 2009** | | | | |
| Trade and other receivables | 2,438 | 2,764 | - | - |
| Cash and cash equivalents | 98 | 10 | - | - |
| Loans and Borrowings | - | (23,524) | - | - |
| Finance lease liabilities | - | (394) | - | - |
| Trade payables | (2,614) | (2,258) | (10) | (158) |
| **Total** | **(78)** | **(23,402)** | **(10)** | **(158)** |

| | LTL | EUR | USD | PLN |
|---|---|---|---|---|
| **31 December 2008** | | | | |
| Trade and other receivables | 3,410 | 4,935 | - | - |
| Cash and cash equivalents | 205 | 11 | - | - |
| Loans and Borrowings | - | (33,825) | - | - |
| Finance lease liabilities | - | (609) | - | - |
| Trade payables | (3,878) | (10,099) | (9) | (111) |
| **Total** | **(263)** | **(39,587)** | **(9)** | **(111)** |

***Capital management***

The Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Management also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position.

There were no changes in the Company's approach to capital management during the year.

The Company is obliged to keep its equity up to 50 percent of its share capital, as imposed by the Law on Companies of Republic of Lithuania.

## 5. Property, plant and equipment

At 31 December property, plant and equipment consisted of the following:

| | Buildings | Machinery and equipment | Vehicles | Other assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| ***Revaluated amount*** | | | | | | |
| **At 1 January 2008** | **39,457** | **68,479** | **1,114** | **5,073** | **633** | **114,756** |
| Additions | - | 1,603 | 91 | 331 | - | 2,025 |
| Disposals | - | (792) | (89) | (5) | - | (886) |
| Write off | - | (52) | - | (48) | - | (100) |
| Transfer to investment property | (679) | - | - | - | - | (679) |
| **At 31 December 2008** | **38,778** | **69,238** | **1,116** | **5,351** | **633** | **115,116** |
| Additions | - | 104 | | 53 | - | 157 |
| Disposals | (1,130) | (347) | (87) | (62) | - | (1,626) |
| Write off | - | (3) | - | (48) | - | (51) |
| Transfer to investment property | (566) | (238) | - | - | - | (804) |
| **At 31 December 2009** | **37,082** | **68,754** | **1,029** | **5,294** | **633** | **112,792** |
| ***Accumulated depreciation and impairment*** | | | | | | |
| **At 1 January 2008** | **14,991** | **47,931** | **786** | **3,363** | **633** | **67,704** |
| Charge for the year | 1,942 | 4,959 | 71 | 359 | - | 7,331 |
| Disposals | - | (153) | (50) | (5) | - | (208) |
| Write off | - | (35) | - | (23) | - | (58) |
| Transfer to investment property | (133) | - | - | - | - | (133) |
| **At 31 December 2008** | **16,800** | **52,702** | **807** | **3,694** | **633** | **74,636** |
| Charge for the year | 1,936 | 4,588 | 58 | 364 | - | 6,946 |
| Disposals | (106) | (68) | (63) | (29) | - | (266) |
| Write off | - | (3) | - | (44) | - | (47) |
| Transfer to investment property | (142) | (222) | - | - | - | (364) |
| Impairment loss | - | 2,015 | - | - | - | 2,015 |
| **At 31 December 2009** | **18,488** | **59,012** | **802** | **3,985** | **633** | **82,920** |
| ***Carrying amount*** | | | | | | |
| **At 31 December 2008** | **21,978** | **16,536** | **309** | **1,657** | **-** | **40,480** |
| **At 31 December 2009** | **18,594** | **9,742** | **227** | **1,309** | **-** | **29,872** |

Depreciation costs are accounted for in production, sales and administrative expenses. Depreciation expense in production costs amounted to LTL‘000 1,861 (during 2008 – LTL‘000 6,515), in selling costs LTL‘000 575 (during 2008 – LTL‘000 555), and in administrative expenses LTL‘000 4,510, including depreciation of the unused production line Nasseti of 2,701 thousand Litas (2008 –261 thousand Litas). Besides that, in 2009 the company included calculated depreciation during downtime of machinery and equipment amounting to 1,565 thousand Litas in administrative expenses.

The Company‘s property, plant and equipment was last revalued on 30 April 2005 based on valuation performed by independent appraisers. Valuations were made on the basis of market value. The revaluation surplus net of applicable deferred income taxes was credited to revaluation reserve in shareholders‘ equity.

At 31 December 2009 the carrying amount of the vehicles and machinery and equipment being acquired under finance lease contracts were LTL‘000 394 (at 31 December 2008 – LTL‘000 609).

At 31 December, 2009 the carrying amount of the property, plant and equipment pledged to Swedbank AB as security for credit facilities granted (note 14) consisted of the following:

| | **2009** | **2008** |
|---|---|---|
| Buildings | 18,594 | 21,978 |
| Machinery and equipment | 9,742 | 16,536 |
| **Total** | **28,336** | **39,514** |

**Impairment testing for property, plant and equipment**

As a result of substantial decrease in revenue for the year 2009 (compared to 2008), the impairment test of the property, plant and equipment was carried by the Company as at 31 December 2009. Total property, plant and equipment was grouped for impairment testing purpose as follows:

- Production line not in use (Nasseti)
- Other property, plant and equipment (in use)

*Production line not in use*

Due to decreasing demand for tiles, in January 2009 the decision was taken by the shareholders to stop Nasseti production line in January 2009, and production is still not resumed. In connection with the preparation of financial statements for year ended 31 December 2009, the assessment of the recoverable amount of this production line was carried out by the Company. The recoverable amount of Nasseti production line was estimated based on its fair value less costs to sell. Based on this assessment, the carrying amount of this production line (2,777 thousand Litas as at 31 December 2009) was determined to be 2,015 thousand Litas higher than its recoverable amount (762 thousand Litas), and an impairment loss was recognised in the financial statements for 2009.

*Assessment of property, plant and equipment in use*

As at 31 December 2009 a recoverable amount of Company's property, plant and equipment in use was estimated based on their value in use, that was determined by discounting the future cash flows generated from the continuing use of the tangible non-current assets. The calculation of the value in use was based on the following key assumptions:

- When estimating the future cash flows, it was expected that the Company's revenue from sales would be 39 million Litas in 2010, whereas in 2011 it would be 45 million Litas with the further growth to 67 million Litas in 2014;
- Monetary inflows for the subsequent periods have been planned by applying 2% growth ratio which reflects an expected average pace of economic growth in the future;
- Gross profit would grow from 22% in 2009 to 26% in 2014, and EBITDA margin would increase from 3.4% in 2009 to 15% in 2014;
- Discount rate of 9.54% was applied in determining the discounted cash flows.

Based on these assumptions, the recoverable amount of the property, plant and equipment exceeds the carrying value of those assets; therefore, no impairment losses on property, plant and equipment in use by the Company as at 31 December 2009 were recognized.

## 6. Intangible assets

At 31 December intangible assets consisted of the following:

| | **Software** |
|---|---|
| ***Cost*** | |
| **At 1 January 2008** | **396** |
| Additions | 21 |
| Write off | - |
| **At 31 December 2008** | **417** |
| Additions | 3 |
| Write off | - |
| **At 31 December 2009** | **420** |
| | |
| ***Accumulated amortization*** | |
| **At 1 January 2008** | **308** |
| Amortisation expense | 56 |
| Write off | - |
| **At 31 December 2008** | **364** |
| Amortisation expense | 39 |
| Write off | **-** |
| **At 31 December 2009** | **403** |
| ***Carrying amount*** | |
| **At 31 December 2008** | **53** |
| **At 31 December 2009** | **17** |

Amortization expense has been included in selling and administrative expenses.

## 7. Investment property

A part of the Company's buildings is rented out to third parties. In the year 2009 the Company decided to correct the presentation of non-current assets, i.e. to present investment properties separately from property, plant and equipment. The correction was applied retrospectively, and corresponding figures were reclassified accordingly. 2007 Reclassified investment property amounted to 197 thousand Litas as at 31 December, reclassified property in total amounted to 743 thousand Litas as at 31 December 2008 and reclassified property in total amounted to 1,183 thousand Litas as at 31 December 2009. The reclassification did not have material impact on the financial position of the Company, therefore additional statement of financial position as at 31 December 2007 is not presented.

As at 31 December the investment property consisted of the following:

| | **Buildings** |
|---|---|
| ***Cost*** | |
| **At 1 January 2008** | **242** |
| Additions | |
| Disposals | |
| Write off | |
| Transfer from property, plant and equipment | 679 |
| **At 31 December 2008** | **921** |
| Additions | |
| Disposals | |
| Write off | |
| Transfer from property, plant and equipment | 804 |
| **At 31 December 2009** | **1,725** |
| ***Accumulated depreciation and impairment*** | |
| **At 1 January 2008** | **45** |
| Charge for the year | |
| Write off | |
| Disposals | |
| Transfer from property, plant and equipment | 133 |
| **At 31 December 2008** | **178** |
| Charge for the year | |
| Disposals | |
| Write off | |
| Transfer from property, plant and equipment | 364 |
| **At 31 December 2009** | **542** |
| ***Carrying amount*** | |
| **At 31 December 2008** | **743** |
| **At 31 December 2009** | **1,183** |

Revenue from lease of investment property of the Company as of 2009 amounted to LTL'000 446, respectively 2008 amounted to LTL'000 326.

The fair value of investment property approximates their carrying values.

At 31 December, 2009 the carrying amount of the investment property pledged to Swedbank AB as security for credit facilities granted (note 14) consisted of the following:

| | **2009** | **2008** |
|---|---|---|
| Buildings | **1,183** | **743** |

## 8. Investments associates

At 31 December investments in associates consisted of the following:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Carrying amount** | **Ownership, %** | **Carrying amount** | **Ownership, %** |
| Baltijos Keramika UAB | 300 | 30.6 | 300 | 30.6 |
| **Total** | **300** | | **300** | |

## 9. Inventories

At 31 December inventories consisted of the following:

| | **2009** | **2008** |
|---|---|---|
| Raw and auxiliary materials | 2,635 | 4,945 |
| Work in progress | 301 | 348 |
| Finished goods | 6,474 | 16,147 |
| Goods for resale | 2,443 | 3,684 |
| | **11,853** | **25,124** |
| Less: write-down to net realizable value allowance | (595) | (326) |
| **Total** | **11,258** | **24,798** |

| | | |
|---|---|---|
| **Write-down to net realizable value allowance at 1 January** | (326) | (566) |
| **Increase (decrease) per year** | (269) | 240 |
| **Write-down to net realizable value allowance at 31 December** | **(595)** | **(326)** |

At 31 December 2009 and 2008 inventories, including raw and auxiliary materials, work in progress, finished goods and goods for resale in the amount of LTL'000 10,000 have been pledged to secure borrowings of the Company (note 14).

At 31 December 2009 the cost of inventories has been reduced to net realizable value by LTL'000 595 (as at 31 December 2008: LTL'000 326). The write-off of inventories to net realizable value are recognized in administrative expenses.

## 10. Trade and other receivables

At 31 December amounts receivable consisted of the following:

| | **2009** | **2008** |
|---|---|---|
| Trade receivables | 5,455 | 8,030 |
| Prepayments to suppliers | 45 | 81 |
| Prepaid expenses | 76 | 234 |
| Other amounts receivable | 53 | 103 |
| | **5,629** | **8,448** |
| Less: impairment of trade and other receivables | (433) | (113) |
| **Total** | **5,196** | **8,335** |

Movements in the impairment of trade receivables for the year ended 31 December were as follows:

| | **2009** | **2008** |
|---|---|---|
| Impairment of trade and other receivables as 1 January | 113 | 17 |
| Increase of impairment losses for the period | 397 | 113 |
| Reversal of impairment losses for the period | 77 | 17 |
| **Impairment of trade and other receivables at 31 December** | **433** | **113** |

Impairment loss of LTL'000 397 (2008 : LTL'000 113) was recognised in administrative expenses.

## 11. Cash and cash equivalents

At 31 December cash and cash equivalents consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Cash at bank | 48 | 129 |
| Cash on hand | 3 | 31 |
| Cash in transit | 57 | 56 |
| **Total** | **108** | **216** |

Cash at Swedbank, AB accounts and future cash inflows were pledged to secure the credit facilities. On 31st of December 2009 the cash balances of the Company in the pledged accounts amounted to LTL'000 74 (note 14).

## 12. Share capital and legal reserve

At 31 December 2009 the authorized and issued share capital of the Company comprised of 9,905,460 ordinary shares with a nominal value of LTL 2 each. All issued shares are fully paid.

The holders of ordinary shares are entitled to one vote per share at General Shareholders' Meeting and are entitled to receive dividends as declared from time to time and to capital repayment in case of decrease of the capital. During 2009 number and nominal value of shares has not changed.

On 23 June, 2009 a Polish company Cersanit SA relinquished its control of 92.25 percent of Dvarčionių Keramika AB ordinary registered shares to Nusinco Holdings Limited, registered in Cyprus, which on 29 June, 2009 sold the share package to a company registered in British Virgin Islands Lorton Investment Ltd.

On 14 July, 2009 a Lithuanian company UAB Misota (controlled by Mr. Juozas Raiselis) bought 9,137,525 (92.25 percent) ordinary registered shares of Dvarčionių Keramika AB from Lorton Investment Ltd. During 2009 it has published a formal proposal to competitively binding and purchased 68,503 (0.69 percent) of shares and from 26 November, 2009 it owns 9,206,028 (92.93 percent) ordinary registered shares.

The structure of shareholders is as follows:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| **Shareholders** | **Number of shares** | **Nominal share value** | **%** | **Number of shares** | **Nominal share value** | **%** |
| Cersanit S.A. | - | - | 0 | 9,137,787 | - | 92.25 |
| UAB "Misota" | 9,206,028 | - | 92.93 | - | - | 0 |
| Others | 699,432 | - | 7.07 | 767,673 | - | 7.75 |
| **Total** | **9,905,460** | **19,810,920** | **100.00** | **9,905,460** | **19,810,920** | **100.00** |

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual contributions of at least 5 percent of the net distributable profit are required until the legal reserve reaches 10 per cent of the statutory capital. The appropriation is restricted to reduction of the accumulated loss.

As at 31 December 2009 the Company did not have fully formed legal reserve. It accounted only for 0.63% of the share capital and amounted to LTL'000 125.

## 13. Earnings per share

| | 2009 | 2008 |
|---|---|---|
| Profit (loss) for the year | (6,042) | 73 |
| Weighted average number of shares in issue (thousand) | 9,905 | 9,905 |
| **Total** | **(0.61)** | **0.01** |

The Company has no dilutive potential shares or convertibles. The diluted earnings per share are the same as the basic earnings per share.

## 14. Loans and borrowings

At 31 December the borrowings were repayable as follows:

| | 2009 | 2008 |
|---|---|---|
| Within one year | 6,636 | 10,749 |
| In the second year | 12,282 | 12,282 |
| In the third to fifth years inclusive | 4,606 | 10,747 |
| After five years | - | - |
| | **23,524** | **33,778** |
| Less: amount due for settlement within one year | (6,636) | (10,749) |
| **Amount due for settlement after one year** | **16,888** | **23,029** |

Terms and conditions of outstanding loans were as follows:

| | | | | | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|---|---|---|---|
| ***In tLitas*** | **Lender** | **Currency** | **Nominal interest rate** | **Year of maturity** | **Face value** | **Carrying value** | **Face value** | **Carrying value** |
| Overdraft | AB Swedbank | EUR | 6 months LIBOR EUR + 1% | 2009 | - | - | 4,607 | 4,607 |
| Loan 1 | AB Swedbank | EUR | 6 months LIBOR EUR + 1.3% | 2013 | 23,029 | 23,029 | 29,170 | 29,170 |
| Loan 2 | J.Raiselis | EUR | 6 months EURIBOR + 2.5% | 2010 | 495 | 495 | - | - |
| | | | | | **23,524** | **23,524** | **33,778** | **33,778** |

The loan is secured by property, plant and equipment (note 5), land lease right (note 16), inventories (note 9), cash at bank accounts (note 11).

## 15. Finance lease liabilities

At 31 December future minimum finance leases were as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Within one year | 130 | 236 | 125 | 213 |
| In the second to fifth year inclusive | 281 | 411 | 269 | 396 |
| **Total** | **411** | **647** | **394** | **609** |
| Less: future finance charges | (17) | (38) | - | - |
| **Present value of lease obligations** | **394** | **609** | **394** | **609** |

Terms and conditions of outstanding loans were as follows:

| *In tLitas* | Lender | Currency | Nominal interest rate | Year of maturity | 31 December 2009 Face value | 31 December 2009 Carrying value | 31 December 2008 Face value | 31 December 2008 Carrying value |
|---|---|---|---|---|---|---|---|---|
| Finance lease 1 | UAB DnB Nord Lizingas | EUR | 6 months EURIBOR + 1.3% | 2013 | 44 | 44 | 55 | 55 |
| Finance lease 2 | UAB DnB Nord Lizingas | EUR | 6 months EURIBOR + 1.5% | 2013 | 187 | 187 | 300 | 300 |
| Finance lease 3 | UAB DnB Nord Lizingas | EUR | 6 months EURIBOR + 1.5% | 2013 | 95 | 95 | 151 | 151 |
| Finance lease 4 | UAB DnB Nord Lizingas | EUR | 6 months EURIBOR + 1.35% | 2013 | 27 | 27 | 35 | 35 |
| Finance lease 5 | UAB Swedbank Lizingas | EUR | 5.57% | 2011 | 13 | 13 | 21 | 21 |
| Finance lease 6 | UAB Swedbank Lizingas | EUR | 5.57% | 2011 | 13 | 13 | 21 | 21 |
| Finance lease 7 | UAB Swedbank Lizingas | EUR | 5.57% | 2011 | 15 | 15 | 26 | 26 |
| | | | | | **394** | **394** | **609** | **609** |

The Company's obligations under finance leases are secured by the leasor's charges over the leased assets.

## 16. Finance lease liabilities

The Company as lessee

Non-cancellable operating lease rentals of premises and vehicles are payable as follows:

| | 2009 | 2008 |
|---|---|---|
| Less than one year | 260 | 484 |
| Between one and five years | 268 | 645 |
| More than five years | - | - |
| **Total** | **528** | **1,129** |

The Company leases a land plot of 10.7 ha situated at Keramikų St 2, Vilnius. The land lease matures in 2097. There are no buy out possibilities included in the land lease contract. In addition, minor land plots are leased in Kaunas, Klaipeda, Šiauliai, Utena and clay quarry in Ukmergė.

The land lease rights have been pledged to Swedbank, AB for the financial facility granted (note 14).

During the year ended 31 December 2009 operating lease rentals of premises and vehicles amounted to LTL'000 402 (2008: LTL'000 396) and land lease amounted to LTL'000 107 (2008: LTL'000 108). Lease fees were recognized as administrative and selling expenses.

The Company as lessor

The Company leases out its investment property held under operating leases (Note 7). The future minimum lease payments under non-cancellable leases are as follows:

| | 2009 | 2008 |
|---|---|---|
| Less than one year | 352 | 299 |
| Between one and five years | 548 | 654 |
| More than five years | 0 | 57 |
| **Total** | **900** | **1,010** |

During the year ended 31 December 2009 operating lease income of LTL'000 446 were recognized as other income in statement of comprehensive income (2008: LTL'000 326).

## 17. Trade payables

At 31 December trade payables consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Amounts payable: | | |
| Domestic | 2,836 | 3,851 |
| Foreign | 2,204 | 10,246 |
| | **5,040** | **14,097** |
| Less: amount due for settlement within one year | (5,040) | (14,097) |
| **Amount due for settlement after one year** | **-** | **-** |

## 18. Other payables and accrued expenses

At 31 December 2009 other payables and accrued expenses consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Taxes payables | 947 | 784 |
| Salaries payable | 463 | 623 |
| Vacation accrual | 382 | 798 |
| Accrued interest | - | 160 |
| Other payables | 132 | 93 |
| **Total** | **1,924** | **2,458** |

## 19. Operating segments

For management purpose, the Company is organized into two reportable operating segments. Information, as reviewed by the chief operating decision maker of the Company, regarding the results of each reportable segment that is used to measure performance of the Company, is included below:

| | Wholesale | | Retail | | Total | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenue from finished goods | 22,306 | 37,084 | 7,922 | 11,058 | 30,228 | 48,142 |
| Revenue from goods for resale | 8,981 | 16,447 | 4,937 | 6,954 | 13,918 | 23,401 |
| Revenue from materials | 23 | 119 | - | - | 23 | 119 |
| Revenue from services | 195 | 335 | 16 | 29 | 211 | 364 |
| **Total revenue** | **31,505** | **53,985** | **12,875** | **18,041** | **44,380** | **72,026** |
| Cost of sales | (26,078) | (43,554) | (8,344) | (11,093) | (34,422) | (54,647) |
| **Gross profit** | **5,427** | **10,431** | **4,531** | **6,948** | **9,958** | **17,379** |
| Unallocated expenses | - | - | - | - | (18,686) | (15,347) |
| Unallocated other income, net | | | | | 3,248 | 560 |
| **Result from operating activities** | **-** | **-** | **-** | **-** | **(5,480)** | **2,592** |
| Interest expenses | - | - | - | - | (985) | (2,385) |
| Other financial expenses, net | | | | | (183) | 11 |
| Income tax expense | - | - | - | - | 606 | (145) |
| **Profit (loss) for the period** | **-** | **-** | **-** | **-** | **(6,042)** | **73** |
| Segment assets | 7,930 | 18,655 | 2,363 | 6,514 | 10,293 | 25,169 |
| Unallocated assets | - | - | - | - | 37,763 | 49,766 |
| **Total assets** | **-** | **-** | **-** | **-** | **48,056** | **74,935** |
| Segment liabilities | - | - | - | - | - | - |
| Unallocated liabilities | - | - | - | - | 31,319 | 52,156 |
| **Total liabilities** | **-** | **-** | **-** | **-** | **31,319** | 52,156 |

There were no inter segment transactions during 2009 and 2008.

## 20. Cost of sales

For the year ended 31 December costs of sales consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Cost of sales of finished goods | 24,124 | 37,056 |
| Cost of sales of goods for resale | 10,284 | 17,507 |
| Cost of sales of raw materials | 14 | 49 |
| Cost of rendering service | 0 | 35 |
| **Total** | **34,422** | **54,647** |

## 21. Other income

For the year ended 31 December other income consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Net result on disposal and write off of property, plant and equipment | 2,683 | (83) |
| Rent and other income | 565 | 643 |
| **Total** | **3,248** | **560** |

## 22. Selling expenses

For the year ended 31 December selling expenses consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Personnel expenses | 2,799 | 3,952 |
| Transportation expenses | 1,345 | 2,144 |
| Depreciation and amortization | 575 | 552 |
| Advertisement and exhibition expenses | 558 | 1,532 |
| Rent | 472 | 540 |
| Marketing expenses | 264 | 350 |
| Business trip expenses | 165 | 202 |
| Banking services | 79 | 20 |
| Tax expenses | 68 | 50 |
| Communication expenses | 55 | 94 |
| Security expenses | 54 | 38 |
| Own transportation expenses | 51 | 123 |
| Insurance | 14 | 64 |
| Representation expenses | 10 | 79 |
| Training | 2 | 32 |
| Other | 784 | 1,252 |
| **Total** | **7,295** | **11,024** |

## 23. Administrative expenses

For the year ended 31 December administrative expenses consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Depreciation of not used Nasseti production line | 2,701 | - |
| Personnel expenses | 2,457 | 2,084 |
| Impairment of Nasseti production line | 2,015 | - |
| Depreciation of machinery and equipment during downtime | 1,565 | |
| Repairs and maintenance | 402 | 287 |
| Impairment of amounts receivable | 397 | 113 |
| Depreciation and amortisation | 283 | 317 |
| Inventory write down (reversal) to net realizable value | 269 | (240) |
| Taxes | 250 | 296 |
| Security expenses | 206 | 283 |
| Consultations | 141 | 110 |
| Transportation expenses | 102 | 185 |
| Insurance | 74 | 68 |
| Audit fee | 42 | 66 |
| Communication expenses | 33 | 101 |
| Bank services | 26 | 114 |
| Business trip expenses | 22 | 48 |
| Postal service, subscription, | 21 | 51 |
| Representation expenses | 19 | 69 |
| Training | 4 | 168 |
| Other | 362 | 203 |
| **Total** | **11,391** | **4,323** |

## 24. Personnel expenses

| | 2009 | 2008 |
|---|---|---|
| Wages and salaries | 6,854 | 9,839 |
| Compulsory social security contributions | 1,783 | 3,047 |
| Increase/Decrease in vacation accrual | (416) | 138 |
| **Total personnel expenses** | **8,221** | **13,024** |

As at 31 December 2009 the Company had 175 employees (2008: 297 employees). Personnel expenses include salaries amounting to LTL ‘000 967 to the management (2008: LTL ‘000 1,009).

## 25. Finance income and expenses

| | 2009 | 2008 |
|---|---|---|
| Interest income | 3 | 0 |
| Gain on currency exchange | 0 | 13 |
| Fines and penalties received | 0 | 3 |
| **Finance income** | **3** | **13** |
| | | |
| Interest expenses | 985 | 2,385 |
| Fines and penalties paid | 171 | 2 |
| Loss on currency exchange | 15 | 0 |
| **Finance costs** | **1,171** | **2,387** |
| **Net finance costs** | **(1,168)** | **(2,374)** |

## 26. Interest expenses

For the year ended 31 December interest expenses consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Interest on loans | 883 | 1,977 |
| Interest on factoring | 102 | 328 |
| Interest on guarantee | 0 | 80 |
| **Total** | **985** | **2,385** |

## 27. Income tax expense

**Reconciliation of effective tax rate**

| | 2009 | % | 2008 | % |
|---|---|---|---|---|
| Profit (loss) before income tax | (6,648) | | 218 | |
| Income tax at statutory tax rate | (1,330) | 20.0 | 33 | 15.0 |
| Non-deductable expenses/ (tax exempt income) | 721 | (10.8) | 105 | 48.3 |
| Current year losses for which no deferred tax asset was recognized | 81 | (1.2) | - | - |
| Effect of tax rate change | (68) | 1.0 | 7 | 3.2 |
| Under (over) provided in previous years | (10) | 0.1 | - | - |
| **Income tax expense (income)** | **(606)** | **(9.1)** | **145** | **66.5** |

| | 2009 | 2008 |
|---|---|---|
| The components of income tax expense are as follows: | | |
| Current Income tax expenses | - | 472 |
| Adjustment of income tax for 2008 | (10) | |
| Net increase (decrease) in deferred tax liability | (596) | (327) |
| **Income tax benefit** | **(606)** | **145** |

In accordance with IAS 12, the Company recognizes a deferred tax liability or asset for temporary differences where amounts of income taxes are probable for payment or recovery in future periods. At each statement of financial position date the Company re-assesses all unrecognized deferred tax assets and recognizes the previously unrecognized portion to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

At 31 December deferred tax consisted of the following:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Temporary differences** | **Deferred tax (15%)** | **Temporary differences** | **Deferred tax (20%)** |
| **Deferred tax asset** | | | | |
| Impairment of receivables | 433 | 65 | 113 | 22 |
| Write-down of inventories to NRV | 595 | 89 | 326 | 65 |
| Accrued vacation | 382 | 57 | 798 | 160 |
| Tax loss carried forward | 537 | 81 | | |
| **Deferred tax asset** | | **293** | | **247** |
| Unrecognised deferred tax asset | | (81) | | - |
| **Recognised deferred tax asset** | | **212** | | **247** |
| **Deferred tax liability** | | | | |
| Property plant and equipment | 3,487 | (523) | 5,770 | (1,154) |
| **Deferred tax liability** | | **(523)** | | **(1,154)** |
| **Deferred tax liability, net** | | **(311)** | | **(907)** |

In 2009 deferred tax asset has not been recognized in respect of tax losses carried forward because it is uncertain that sufficient taxable profit will be available in the foreseeable future against which the Company could utilize the benefit.

Under current legislation. Company's tax losses can be carried forward indefinitely, if economic activity from which losses originated is continued.

## 28. Related party transactions

The related parties of the Company could be specified as follows:

- Baltijos Keramika UAB, Lithuania (associate);
- Ultimate shareholder Juozas Raišelis;
- SIA Dvarčionių Keramika;
- UAB Dvarčia;
- Cersanit S.A.;
- Opoczno Trade;
- Opoczno I;
- Opoczno S.A.

**a) transactions between related parties**

| | UAB Baltijos Keramika | | Ultimate shareholder Juozas Raišelis | | SIA Dvarčionių Keramika | | UAB Dvarčia | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| Income: | | | | | | | | |
| Goods sold | 17 | 731 | - | - | - | - | 116 | 86 |
| Other | 10 | - | - | - | - | - | 13 | - |
| **Total** | **27** | **731** | **-** | **-** | **-** | **-** | **129** | **86** |
| Purchases: | | | | | | | | |
| Goods | 146 | 456 | - | - | - | - | 54 | - |
| Materials | - | - | - | - | - | - | | 403 |
| Non- current assets | - | 25 | - | - | - | - | | - |
| **Total** | **146** | **481** | **-** | **-** | **-** | **-** | **54** | **403** |
| Operating expenses | - | - | - | - | - | - | - | - |
| Received services | | | 490 | - | | | | |
| Financial expenses (interest) | - | - | 5 | - | - | - | - | - |
| **Total** | **-** | **-** | **495** | **-** | **-** | **-** | **-** | **-** |

| | Cersanit S.A. | | Opoczno Trade | | Opoczno I | | Opoczno S.A. | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| Income: | | | | | | | | |
| Goods sold | 6 | - | - | - | - | - | - | - |
| Other | | - | - | - | - | - | - | - |
| **Total** | **6** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Purchases: | | | | | | | | |
| Goods | 2,228 | 7 | 3,563 | 3,796 | 44 | 79 | - | 4,619 |
| Materials | | - | - | - | - | - | - | - |
| Non- current assets | | 26 | - | - | - | - | - | - |
| **Total** | **2,228** | **33** | **3,563** | **3,796** | **44** | **79** | **-** | **4,619** |
| Operating expenses | - | - | - | - | - | - | - | - |
| Financial expenses (interest) | - | 60 | | - | - | - | - | 20 |
| **Total** | **-** | **60** | **-** | **-** | **-** | **-** | **-** | **20** |

On 30 June 2009 the Company has sold finished goods to Cersanit S.A. in the amount of LTL'000 8,408. Receivable amount from Cersanit S.A. was netted off with payable amounts to Cersanit S.A., Cersanit III and Opoczno Trade. The company has gained LTL'000 1,397 of profit (gross margin of 17%).

**b) balances between related parties**

| | UAB Baltijos Keramika | | Main shareholder Juozas Raišelis | | SIA Dvarcioniu Keramika | | UAB Dvarčia | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| Trade and other receivables | - | - | - | - | - | - | - | - |
| Inventory | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Accrued interest | - | - | 5 | - | - | - | - | - |
| Loans received | - | - | 490 | - | - | - | - | - |
| Trade payables | 182 | 151 | - | - | - | - | 101 | 28 |
| **Total** | **182** | **151** | **495** | **-** | **-** | **-** | **101** | **28** |

| | Cersanit S.A | | Opoczno Trade | | Opoczno I | | Opoczno S.A. | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| Trade and other receivables | - | - | - | 433 | - | - | - | - |
| Inventory | - | 49 | - | 1,439 | - | - | - | - |
| **Total** | **-** | **49** | **-** | **1,872** | **-** | **-** | **-** | **-** |
| Accrued interest | - | 120 | - | - | - | 40 | - | - |
| Trade payables | 263 | 56 | 22 | 4,874 | 15 | - | - | 652 |
| **Total** | **263** | **176** | **22** | **4,874** | **15** | **40** | **-** | **652** |

**c) Transactions between the Company and the management and supervisory boards of the Company and Opoczno S.A**

Management Board of the Company:

| Name | Period |
|---|---|
| Marek Andrzej Ungier | 01 01 – 09 06,2009 |
| Algirdas Krupavičius | 01 01 – 31 12,2009 |
| Mindaugas Bučas | 01 01 – 31 12,2009 |
| Amadeusz Feliks Kowalski | 01 01 – 09 06,2009 |
| Liudmila Suboč | 01 01 – 31 12,2009 |
| Michal Jasinski | 09 06 – 10 07,2009 |
| Audris Imbrasas | 10 07 – 31 12,2009 |
| Giedrius Kolesnikovas | 10 07 – 31 12,2009 |

Remuneration to the management is disclosed in note 24.

Supervisory Board of the Company:

| Name | Period |
|---|---|
| Grzegorz Saniawa | 01 01 – 08 07,2009 |
| Miroslaw Wladyslaw Jędrzejczyk | 01 01 – 08 07,2009 |
| Artur Kloczko | 01 01 – 08 07,2009 |

There were no payments to the supervisory board during 2009 and 2008.

## 29. Claims and litigations

At 31 December 2009 and 2008 the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements, apart from those, related to recovery of accounts receivable.

## 30. Subsequent events

There have been no significant subsequent events which could have a material impact on the financial statements for the period ended 31 December 2009.

## 31. Commitment and off balance sheet items

At 31 December 2009 commitments consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Asset insurance payments till 31 November 2013 (compulsory according the Loan contract) | 1,146 | 183 |
| Lease interest till full repayment of lease | 12 | 14 |
| Bank loan interest till maturity (30 September 2013) | 1,080 | 4,655 |
| Interest of Guarantee, provided by Opoczno S.A | 0 | 80 |
| **Total:** | **2,238** | **4,932** |

Emission allowances movement consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Balance at 1 January, units | 41,082 | 56,127 |
| Allocated to the Company for the year, units | | |
| Consumed by the Company during the year, units | (4,631) | (15,045) |
| **Balance at 31 December, units** | **36,451** | **41,082** |

Emission allowances allocated to the Company for the period of 2008-2012 amount to 56,127.