

2015.04.03 Nr. 12-214

Bank of Lithuania
Žirmunų str. 151
Vilnius

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 21 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, General manager of DVARČIONIŲ KERAMIKA AB Liudmila Suboč and Chief Accountant of DVARČIONIŲ KERAMIKA AB Elona Suveizdienė hereby confirm that to the best of our knowledge, the attached DVARČIONIŲ KERAMIKA AB audited financial statements for the year ended 31 December 2014, prepared in accordance to International Financial Reporting Standards, as adopted by the European Union, provide a true and fair view of the assets, liabilities, financial position and comprehensive income of DVARČIONIŲ KERAMIKA AB.

Enclosed: DVARČIONIŲ KERAMIKA AB annual report and financial statements for the year ended 31 December 2014.

General manager



Liudmila Suboč

Chief Accountant



Elona Suveizdienė

DVARČIONIŲ KERAMIKA AB

**Independent Auditor's Report,
Annual Report and Financial Statements
for the year ended 31 December 2014**

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Information about the Company

Dvarčionių Keramika AB

The Company was registered on 10 of June 1994, registered as joint-stock company on 27 February 1997.

Restructured the company status Dvarčionių keramika received under judicial appeal from the order of 2013 December 23 rd.

The company 's code 110628481

VAT payer code LT106284811

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

Board

| | |
|-----------------------|-------------------------------|
| Juozas Raišelis | Chairman |
| Liudmila Suboč | Board member, General Manager |
| Giedrius Kolesnikovas | Board member |
| Ernestas Šližys | Board member |
| Paulius Linčius | Board member |

Management

| | |
|-----------------|------------------------------|
| Liudmila Suboč | General Manager |
| Ernestas Šližys | Sales and Marketing Director |

Auditor

Grant Thornton Rimess UAB

Banks

AB SEB bank
Vilnius Regional Court since 2013. October 23. allowed to carry only payments through bank SEB.



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AB DVARČIONIŲ KERAMIKA

Report on the financial statements

We have audited the accompanying financial statements of AB Dvarčionių keramika, which comprise the statement of financial position as at December 31, 2014, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and explanatory notes (hereinafter – the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the legal acts of the Republic of Lithuania regulating the financial accounting and preparation of the financial statements, and with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the auditor's 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, the auditor considers 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 policies 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 qualified audit opinion.

Basis for Qualified Opinion

1. On December 23, 2013 the Company got a restructured company's status under the Lithuanian Appeal Court's decision. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred a net loss of LTL 7528 thousand during the year ended 31 December 2014 and, as of that date, the Company's liabilities exceeded its assets by LTL 2034 thousand. In our opinion, there is a significant doubt about the Company's ability to continue as going concern. These financial statements do not include any adjustment that might result from the outcome of this uncertainty.

2. The Company's balance sheet dated 31 December 2014 listed LTL 22235 thousand in buildings, machinery and equipment, the fair market value which was not evaluated even though the indications of impairment were noticed as of 31 December 2014. In our opinion, there is a risk that the carrying value of the buildings, machinery and equipment may differ materially from their fair value. The Company's Management has not assessed the recoverable amount of the said asset. We were not in a position to apply other audit procedures which would allow us to obtain reasonable assurance whether the carrying values of the buildings, machinery and equipment were correct. If the carrying value of the asset would be reduced to reach its recoverable amount, the reduction of the carrying value of fixed assets and the annual result is likely.



3. We did not observe the counting of physical inventories which constituted LTL 1453 thousand in the balance sheet as of December 31, 2014 as we were appointed as auditors of the financial statements after the counting of physical inventories date. We were unable to satisfy ourselves by any other alternative means concerning the inventory quantities held at December 31, 2014.

Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion 1-2 paragraphs and possible effects of the matter described in 3 paragraph of relevant data, the financial statements present fairly, in all material respects, the financial position of AB Dvarčionių keramika as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with the legal acts of the Republic of Lithuania regulating the financial accounting and preparation of the financial statements, and with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the accompanying annual report of AB Dvarčionių keramika for the year 2014 and have not identified any material inconsistencies between the financial information included and the audited financial statements.

Director auditor
Genadij Makušev
Auditor's certification No. 000162

2 April, 2015
40B A. Goštautas str., Vilnius

UAB Grant Thornton Rimess
Audit company's certification No. 001410

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

1. The Company's financial position, performance and development review, description of major risks and uncertainties faced by the Company

1.1. The Company's financial position, performance and development review

The Company's key performance indicators for the period from 2012 to 2014:

| | 2014 | 2013 | 2012 m. |
|--|-------------|-------------|----------------|
| Sales revenue, LTL'000 | 2 459 | 16 137 | 24 358 |
| Gross profit, LTL'000 | 550 | 2 925 | 3 810 |
| Gross profit margin, % | 22% | 18% | 16% |
| Operating profit, LTL'000 | (5 506) | (6 753) | (4 861) |
| Operating profit margin, % | (-223%) | (42%) | (20%) |
| EBITDA, LTL'000 | (3 040) | (3062) | (756) |
| EBITDA margin, % | (124%) | (19%) | (3.1%) |
| Net profit (loss), LTL'000 | (7 528) | (5 273) | (5 303) |
| Net profit (loss) margin, % | (306%) | (32.7%) | (21.8%) |
| Return on assets, % (ROA) | (28%) | (16%) | (12.4%) |
| Return on equity, % (ROE) | (370%) | (96%) | (49.3%) |
| Profit (loss) per share, LTL | (0.76) | (0.53) | (0.54) |
| Total assets, LTL'000 | 26 415 | 32 345 | 42 970 |
| Shareholders equity, LTL'000 | (7 528) | 5 494 | 10 767 |
| Long-term liabilities, LTL'000 | 2 692 | 2 692 | 3 648 |
| Working capital, LTL'000 | (22 108) | (17 046) | (14 144) |
| Net change in cash flows, LTL'000 | 447 | 1071 | (64) |
| Investments, LTL'000 | - | - | - |
| Production volume, thousand m2 | - | 360 | 1 027 |
| Number of employees at the end of the year | 30 | 75 | 139 |
| Average salary, LTL/month | 1 760 | 1 991 | 2 282 |

2014 the main financial indicators of the company was low. It was influenced by the closure of production for lack of circulating asset. The main reason – fully not complete production range.

1.2. Description of major risks and uncertainties faced by the Company

Economical:

- The company in 2014 did not productive activities.
- For litigation delayed restructuring plan confirmation process.
- The decline in construction had a negative impact on the ceramic tiles market growth;
- The Company has not received any fines or sanctions for pollution in 2014.

2. Analysis of financial and non-financial results, information related to environment and personnel

2.1 Revenue

The Company's main business is manufacturing of ceramic and stone tiles, wholesale and retail trade.

In 2014 revenue was 2,4 million LTL

Sales in Lithuania

The Company's production is sold in all bigger construction material trade centers, also in own-brand shops. The Company has 2 brand retail shops in Vilnius and Klaipeda. The Company's shops sell not only the Company's production, but also sanitary equipment, bathroom accessories, materials for tiles pasting. The services of professional designers are provided.

2.2. Supply and Logistics

Companies, selected in tender procedures, perform transportation and other services. It allows the Company to achieve the optimum price-quality ratio.

For the purpose of reducing the supply risk long term contracts are signed with main suppliers.

2.3. Production

The company in 2014 did not productive activities.

2.4. Management of quality and environment issues, experimental laboratory

Quality and Environment Safety management system

Dvarcioniu Keramika AB activities are fully compliant with the quality and environment safety management standards ISO9001 & ISO14001 requirements. Quality management system was implemented and certified in 1999; environmental safety management system in 2002.

Quality and Environment Safety management systems external audit and results

Recertification of ISO9001 and ISO14001 quality and environmental management systems was accomplished in August 2008. New certificates were issued: No. 37667-2008-AQ-FIN-FINAS, No. 37669-2008-AE-FIN-FINAS. In September 2011 Det Norske Veritas UAB performed recertification audit of ISO9001 and ISO14000 management systems. No deficiencies were noted.

Accredited experimental laboratory

Dvarcioniu Keramika AB experimental laboratory was certified in 1999, accreditation No. LA.01.025. The accreditation provides the right to the laboratory to issue to its products EC declarations of conformity in accordance with LST EN 14411 standard.

The accreditation and supervision of the experimental laboratory is performed by NAB – National Accreditation Bureau. Last audit by National Accreditation Bureau was done in November 2012. National Accreditation Bureau performed an audit of supervision of experimental laboratory and extended term of accreditation according to EN ISO/IEC 17025:2005 standard.

In experimental laboratory carried out experiments for Dvarcioniu Keramika AB for external customers.

Information about emission rights

Dvarcioniu keramika AB works on the basis of IPPC edition 4.7-V-01-34 issued by Vilnius RAAD. The updated edition was confirmed on 1 March 2010 without a limited term of validity. 56,127 tons of the CO2 emissions (allowances) were given for the period 2008-2012. For this period the CO2 monitoring plan was developed and approved by Vilnius RAAD on 1 April 2008. The annual report shall be prepared and carried out in accordance with the law by an independent evaluation performed by DNV Company.

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2.5 Information on the Company's internal control system

The Company has adopted ISO 9001 and ISO 14001 standards. The Company has established and placed a plan which ensures that all business decisions are made by employees of appropriate level of competence, that all decisions are implemented, that all transactions are made in accordance with the decisions, that all valuable assets are stored in accordance with the provisions of the Company's management and that all business transactions are properly recorded. The Company has implemented such internal control system which ensures the reliability and accuracy of information and provides assurance that all industrial, commercial and financial transactions are carried out only after approval by the management. Elements of Company's internal control system are: organizational structure, segregation of duties, accounting system, physical control, control procedures, authorization and approval, personnel policies, monitoring, approval of the activities carried out, budgeting and performance monitoring. The accounting system comprises of procedures which set such an order to register, summarize and systematize transactions which removes any possibility of fraud and abuse and ascertains that financial statements are prepared on time and correctly. Control procedures are rules and regulations designed by the management to prevent from errors or fraud, to identify and correct them and to ensure that the objectives of the Company are achieved.

2.6 Human resources

Employees

As of 31 December 2014 there were 30 full-time employees in the Company, on 31 December 2013 – 75.

Collective agreement

The collective agreement defines relationships between employees, employed in the Company based on work agreements, agreements between employees and the Company relating to work conditions, payment, administration, safety, and time off schedules as well as other social and economical conditions.

The Company's management cooperates with the professional union, provides information, and discusses the Company's business issues.

Increase in qualification

Employee training and qualification is performed based on the Company's Quality management system ISO 9001 procedures.

Job safety

There are suitable and safe working conditions in the Company. Health and safety committee is present. There were no serious accidents during 2014.

3. Links and extra explanations about data presented in the financial statements

All the additional information is presented in the following financial statements.

3.1 On 5 September 2006 the Company signed an agreement on Company's equity securities accounting with Finasta FMJ AB (Maironio str. 11, Vilnius).

3.2 Company's ordinary shares (symbol- DKR1L) are listed on NASDAQ OMX Baltic Secondary list.

Types of shares- Ordinary registered Shares (ORS)

Number of shares (units) - 9 905 460

Nominal value- 2 LTL

ISIN code- LT0000122319

All Company's shares are paid.

3.3 Information about the issuer's own shares

The Company does not have own shares.

3.4 Information about the issuer's secondary companies.

"Baltijos keramika" UAB (Družų v., Širvintų r., Lithuania) - 30,6 %

4. Shareholders

As of 31 December 2014 number of shareholders of Dvarčionių keramika AB was 1,010

Shareholders owning or controlling more than 5% of the share capital.

| Company's name, address | Number of Company's shares held | Voting rights |
|---|---------------------------------|---------------|
| UAB "MISOTA" Smolensko St., 10, Vilnius, Lietuva The company's code 301232691 | 9.206.028 | 92,93% |

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Rights and duties of shareholders

Shareholders have the following rights and duties:

- 1) to receive a part of the company's profit (dividends);
- 2) to receive a part of assets of the company in liquidation;
- 3) to receive shares without payment if the authorised capital is increased out of the company funds, except in cases specified in the Law on Companies;
- 4) to receive cash when the share capital of the Company is decreased in order to pay some company's cash;
- 5) to have the pre-emption right, except in cases when the General Meeting decides to withdraw the pre-emption right in acquiring the company's newly issued shares for all the shareholders;
- 6) to lend to the company in the manner prescribed by law; however, when borrowing from its shareholders, the company may not pledge its assets to the shareholders. When the company borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the lender has his place of residence or business, which was in effect on the day of conclusion of the loan agreement. In such a case, the company and shareholders shall be prohibited from negotiating a higher interest rate;
- 7) other property rights and duties noted in Law on Companies and other legal acts of the Republic of Lithuania;
- 8) to participate in the General Meetings;
- 9) to submit to the Company in advance the questions connected with the issues on the agenda of the General Meeting of Shareholders;
- 10) to vote at General Meetings of Shareholders according to voting rights carried by their shares;
- 11) to receive information on the business activities of the company;
- 12) to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the manager of the company and Board members of their duties prescribed by this Law and other laws and the Articles of Association of the company as well as in other cases laid down by laws.

5. Own shares acquired or transferred during the financial year, their par value and the part of share capital formed by these shares

The company did not hold, acquire or transfer any shares during the financial year.

6. Information about the payments for owned shares if they were acquired or transferred for a fee

The company did not hold, acquire or transfer any shares during the financial year.

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

None.

8. Powers of the General Meeting of Shareholders

The General Meeting of Shareholders shall have the exclusive right to:

- 1) amend the Articles of Association of the company, unless otherwise provided for by Law on Companies;
 - 2) remove the Supervisory Board or its members, also the Board or its members elected by the General Meeting of Shareholders and the manager of the company;
 - 3) elect and remove the firm of auditors for the carrying out of the audit of annual financial statements, set the conditions for auditor remuneration;
 - 4) determine the class, number, nominal value and the minimum issue price of the shares issued by the company;
 - 5) take a decision regarding conversion of the company's shares of one class into shares of another class, approve the share conversion procedure;
 - 6) approve company's set of annual financial statements;
 - 7) take a decision on profit/loss appropriation;
 - 8) take a decision on the formation, use, reduction and liquidation of reserves;
 - 9) take a decision on the issue of convertible debentures;
 - 10) take a decision on withdrawal for all the shareholders the right of pre-emption in acquiring the company's shares or convertible debentures of a specific issue;
 - 11) take a decision on increase of the authorized capital;
 - 12) take a decision on reduction of the authorized capital, except where otherwise provided for by Law on Companies;
 - 13) take a decision for the company to purchase own shares;
 - 14) take a decision on the reorganization or split-off of the company and approve the terms of reorganization or split-off;
 - 15) take a decision on transformation of the company;
 - 16) take a decision on restructuring of the company;
 - 17) take a decision on liquidation of the company, cancellation of the liquidation of the company, except where otherwise provided for by Law on Companies;
 - 18) collect and remove from office the liquidator of the company, except where otherwise provided for by this Law.
- The General Meeting of Shareholders may also decide on other matters assigned within the scope of its powers by the Articles of Association of the company, unless these have been assigned under this Law within the scope of powers of other organs of the company and provided that, in their essence, these are not the functions of the management organs.

The General Meeting of Shareholders shall take the following decisions by a qualified majority vote that must be not less than 2/3 of all the votes carried by the shares held by the shareholders attending the Meeting:

- 1) to amending of the Articles of Association of the company, except where otherwise stipulated by Law on

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Companies;

2) to determine the class, number, nominal value and the minimum issue price of the shares issued by the company;

3) to convert of the company's shares of one class into shares of another class, approval of the share conversion procedure;

4) distribution of profit (low)

5) building up, drawing on, reduction or liquidation of reserves;

6) issuance of convertible debentures;

7) increase of the authorized capital;

8) reduction of the authorized capital, except where otherwise stipulated by the Law on Companies;

9) reorganization or split-off of the company or approval of the terms of reorganization or split-off of the company;

10) reorganization or split-off of the company or approval of the terms of reorganization or split-off of the company;

11) restructuring of the company;

12) liquidation of the company and cancellation of the company's liquidation, except where otherwise stipulated by this Law.

The decision to withdraw for all shareholders the pre-emption right in acquiring the company's newly issued shares or convertible debentures of a specific issue shall require a qualified majority vote that must be not less than 3/4 of all the votes carried by the shares of the shareholders present at the General Meeting of Shareholders and entitled to vote when deciding on the issue

9. Regulation of change of Company's Articles of Association

Changes of Company's Articles of Association are changed according to legal requirements.

10. Information on Company's managing bodies

The Company has its General Meeting of Shareholders, collegiate managing body Managing Board and managing body – Company's General Director. Managing Board is elected by the General Meeting of Shareholders for four years period. Managing Board is comprised from 5 members. Company's General Director is elected and resigned by Company's Managing Board. Salary and job regulations of General Director are also approved by the Managing Board.

Information on Managing Board members of Dvarčionių keramika AB:

| Name, Surname, position | Term of office (from - to) | Number of Company's shares held | Participation in other companies' operations | Participation in other companies' share capital |
|--|---------------------------------------|---------------------------------|--|--|
| Mr. Juozas Raišelis, Chairman of the Board | From 14 July 2013 to 13 July 2017 | - | President of Raico group UAB | 35.4 % voting rights of Raico group UAB |
| Mr. Giedrius Kolesnikovas Board member | From 14 July 2013 to 13 July 2017 | - | - | - |
| Mrs. Liudmila Suboč Board member | From 14 July 2013 to 13 July 2017 | 10 shares | - | 7.65 % of voting rights of Baltijos keramika UAB |
| Mr. Mindaugas Bučas Board member | From 14 July 2013 to 28 February 2014 | - | - | 50 % of voting rights of Dvarų keramika UAB |
| Marius Rumšas, Board member | From 14 July 2013 to 13 June 2014 | | | |
| Ernestas Šlyžis, Board member | From 26 June 2014 to 14 July 2017 | | | |
| Paulius Linčius Board member | From 26 June 2014 to 14 July 2017 | | Director UAB Misota | |

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Liudmila Suboč - General Director of the Company from 23th of July 2013. She has a higher education, works within the Company from 1980. She has 10 units of the company shares

Mrs. Elona Suveizdienė – chief accountant. She has a higher education, works within the Company from 27 June 2012. She does not hold any shares of the Company.

11. Information on Company's branches and affiliates

The Company does not hold any branches of affiliates

12. Important events of the year

General meetings of shareholders:

2014-01-29 on the audit company and payment conditions, for the new version of the company's articles of association - quantitative representation of transactions confirmation refusal;

2014-04-28 the annual General Meeting of Shareholders was held. There was presented the annual report on the 2012 activities of the company as well as the auditors opinion on the company's activities in 2013, approved the company's 2013 financial statements and approved distribution of the profit (loss) of the year 2013.

2014-06-25 for approval of the Dvarčionių keramika RAB restructuring plan of the project; for new election of the Board;

2014-10-01 on the approval of the restructuring plan

2015-02-05 the company elected UAB „Grant Thornton Rimess“ as an auditor for verifying the year 2014 financial statements. Approved the maximum payment rate 14 847.04 Lt (€ 4300), excluding value added tax, for verifying the company financial reports for the year 2014.

All information is presented on the Company's website <http://www.keramika.lt/announcements>

13. The Company's plans and forecasts

The Company does not publicly announce its plans and forecasts.

14. Information about the research and development activities.

The Company did not conduct any research and development activities.

15. 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 discloses 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 did not use any derivative financial instruments, which are important in assessing the Company's assets, equity, liabilities, financial position and results.

16. Transactions of Dvarčionių keramika AB equity securities in regulated financial markets

Company's ordinary shares are listed on NASDAQ OMX Baltic Secondary list. Trading statistics is provided below:

| Reporting period | Price, LTL | | |
|---------------------|------------|--------|--------------|
| | Highest | Lowest | Last Session |
| I quarter of 2014 | 0,080 | 0,027 | 0,041 |
| II quarter of 2014 | 0,069 | 0,011 | 0,055 |
| III quarter of 2014 | 0,059 | 0,027 | 0,050 |
| IV quarter of 2014 | 0,149 | 0,023 | 0,117 |

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| Reporting period | Price (Lt) | | |
|---------------------|------------|--------|--------------|
| | Highest | Lowest | Last Session |
| I quarter of 2013 | 0,140 | 0,123 | 0,123 |
| II quarter of 2013 | 0,272 | 0,006 | 0,088 |
| III quarter of 2013 | 0,150 | 0,040 | 0,120 |
| IV quarter of 2013 | 0,099 | 0,012 | 0,027 |

| Ratio | I quarter | | II quarter | | III quarter | | IV quarter | |
|-----------------------------|-----------|-------|------------|--------|-------------|--------|------------|--------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Open price | - | - | - | - | - | 0,088 | 0,027 | 0,120 |
| Highest price | 0,080 | 0,140 | 0,069 | 0,272 | 0,059 | 0,150 | 0,149 | 0,099 |
| Lowest price | 0,027 | 0,123 | 0,011 | 0,006 | 0,027 | 0,040 | 0,023 | 0,012 |
| Last price | 0,041 | 0,123 | 0,055 | 0,088 | 0,050 | 0,120 | 0,041 | 0,027 |
| Turnover, units | 9131 | 4 535 | 19221 | 12 754 | 15303 | 34 435 | 1746 | 16 530 |
| Turnover, million LTL | - | - | - | - | - | - | - | - |
| Capitalization, million LTL | 0.27 | 0.41 | 0.27 | 0.41 | 0.27 | 0.41 | 0.27 | 0.41 |

| Ratio | 2014 | 2013 |
|-----------------------------|-------|--------|
| Open price | 0,120 | 0,120 |
| Highest price | 0,514 | 0,272 |
| Lowest price | 0,038 | 0,006 |
| Last price | 0,404 | 0,027 |
| Turnover, units | 45401 | 68 255 |
| Turnover, million LTL | - | 0,01 |
| Capitalization, million LTL | 0.27 | 0.41 |

17. DVARČIONIŲ KERAMIKA AB disclosure form regarding the Compliance with the Governance Code for the Companies Listed on AB NASDAQ OMX Vilnius Regulated Market

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLICABLE | COMMENTARY |
|--|------------------------|---|
| Principle I: Basic Provisions | | |
| The overriding objective of the 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 publicly. |
| 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 | |

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| | | |
|---|----------------|---|
| 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. |
| <p>Principle II: The corporate governance framework</p> <p>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.</p> | | |
| 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 | The governing bodies of the Company are: general meeting of shareholders, Board of directors 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 company's management bodies. | Yes | The Company's collegial management body is Board of directors. |
| 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. A 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 Board of directors consists of 5 members. |
| 2.6. Non-executive directors or members of the | No | |

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| <p>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.</p> | | |
| <p>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.</p> | No | |
| <p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>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.</p> | | |
| <p>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.</p> | No | |
| <p>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.</p> | Yes | The Company complies with the recommendation. |
| <p>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</p> | Yes | The Company complies with the recommendation. |

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| <p>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.</p> | | |
| <p>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.</p> | <p>Yes</p> | <p>The Company's collegial body members are qualified specialists.</p> |
| <p>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.</p> | <p>No</p> | |
| <p>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.</p> | <p>No</p> | |
| <p>3.7. A member of the collegial body should be considered to be independent only if he/she 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:</p> <ol style="list-style-type: none"> 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; 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 | <p>No</p> | <p>The Company's financial statements disclose the related parties' transactions as required by the International financial reporting standards. Transactions between the related parties are performed using arm's length principle. No other means to evaluate the independence of members of governing bodies are applied because no means are specified in internal documents of the Company (statute, regulations).</p> |

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| <p>body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</p> <p>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);</p> <p>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);</p> <p>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;</p> <p>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;</p> <p>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;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>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</p> | | |
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| 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 conception of independence. |
| 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 | |
| <p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>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.</p> | | |
| 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 | Yes | The Company complies with the recommendation. |

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| <p>members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p> | | |
| <p>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.</p> | <p>Yes</p> | <p>The Company complies with the recommendation. The members of collegial bodies perform its functions: actively participate in collegial body meetings and devote enough of their time for such meetings.</p> |
| <p>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.</p> | <p>Yes</p> | <p>The Company complies with the recommendation.</p> |
| <p>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.</p> | <p>Yes</p> | <p>Transactions between the Company and its shareholders, members of the Management Board and Supervisory Council and other natural or legal persons who has influence or may have influence on the Company's management are approved according to the procedures specified in the statute of the Company.</p> |
| <p>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</p> | <p>Yes</p> | <p></p> |

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| <p>legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.</p> | | |
| <p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p> | <p>Yes</p> | |
| <p>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.</p> | <p>No</p> | |
| <p>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</p> | <p>No</p> | <p>01</p> |

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| <p>ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p> | | |
| <p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p> | <p>No</p> | |
| <p>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.</p> | <p>No</p> | |
| <p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience of the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board)</p> | <p>No</p> | <p style="text-align: right;">01</p> |

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| <p>and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p> | | |
| <p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 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); 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.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee,</p> | <p>No</p> | <p></p> |

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| <p>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.</p> | | |
| <p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <p>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);</p> <p>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;</p> <p>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;</p> <p>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;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> | <p>No</p> | <p>The Company has no internal audit committee.</p> |

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| <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>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. The 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 centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> | | |
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| <p>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.</p> | <p>Yes</p> | <p>The collegial body conducts the assessment of its activities and reviews its objectives.</p> |
| <p>Principle V: The working procedure of the company's collegial bodies</p> <p>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.</p> | | |
| <p>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.</p> | <p>Yes</p> | <p>The Company complies with the recommendation.</p> |
| <p>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.</p> | <p>Yes</p> | <p>The Company complies with the recommendation.</p> |
| <p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate</p> | <p>Yes</p> | <p>The Company complies with the recommendation.</p> |

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| 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-ordinating 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 complies with the recommendation. |
| <p>Principle VI: The equitable treatment of shareholders and shareholder rights</p> <p>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.</p> | | |
| 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 ordinary shares that give the same voting, ownership, dividend and other rights to all of 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 complies 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 statute. |
| 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 | Public announcements are made using Stock exchange information system and in press. Also, the announcements are placed 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 complies 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 | |

| | | |
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| Principle VII: The avoidance of conflicts of interest and their disclosure | | |
| The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies. | | |
| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes | The Company complies 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 | The Company complies with the recommendation. |
| 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 | Not applicable | |

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| <p>operations in the company under usual conditions) must be immediately reported in writing or verbally, 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.</p> | | |
| <p>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.</p> | <p>Not applicable</p> | <p>There were no such cases in 2014.</p> |
| <p>Principle VIII: Company's remuneration policy</p> <p>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.</p> | | |
| <p>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.</p> | <p>No</p> | <p>No such practice has been established in the Company.</p> |
| <p>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.</p> | <p>No</p> | <p>No such practice has been established in the Company.</p> |
| <p>8.3. Remuneration statement should include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.</p> | <p>No</p> | <p>No such practice has been established in the Company.</p> |
| <p>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.</p> | <p>No</p> | <p>No such practice has been established in the Company.</p> |

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| <p>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.</p> | <p>No</p> | <p>No such practice has been established in the Company.</p> |
| <p>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.</p> | <p>No</p> | <p>No such practice has been established in the Company.</p> |
| <p>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.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. <p>8.7.2. Regarding shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise | <p>No</p> | <p>The Company discloses payments to the managers in the explanatory notes of the financial statements.</p> |

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| <p>price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>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;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>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.</p> <p>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.</p> | | |
| <p>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.</p> | <p>No</p> | <p>No such practice has been established in the Company.</p> |

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| <p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. <p>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.</p> | <p>No</p> | |
| <p>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.</p> | <p>No</p> | |
| <p>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.</p> | <p>No</p> | |
| <p>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.</p> | <p>No</p> | |

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| <p>Principle IX: The role of stakeholders in corporate governance</p> <p>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.</p> | | |
| <p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p> | <p>Yes</p> | <p>The Company's management system assures that the rights of stakeholders are protected according to laws.</p> |
| <p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p> | <p>Yes</p> | |
| <p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p> | <p>Yes</p> | |
| <p>Principle X: Information disclosure and transparency</p> <p>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.</p> | | |
| <p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> 1) The financial and operating results of the company; 2) The Company's objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and related parties, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. <p>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.</p> <p>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.</p> <p>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</p> | <p>Yes</p> | <p>The Company complies with recommendation.</p> |

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
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| <p>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.</p> <p>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.</p> | | |
| <p>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 AB NASDAQ OMX Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p> | Yes | <p>The Company provides information in English and Lithuanian in AB NASDAQ OMX Vilnius information system at the same time. Information is announced in the stock exchange trading system and web page. Such process ensures that all the information users gets information at the same time. The Company also tries to announce essential information in non-trade time – before or after trade sessions. No comments, interview or other essential information is provided before it becomes public through official stock exchange information system.</p> |
| <p>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.</p> | Yes | <p>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. Such process ensures that all the information users gets information at the same time.</p> <p>The Company provides information in English and Lithuanian.</p> |
| <p>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.</p> | Yes | <p>The Company has updated its web site and announces information specified in the recommendation 10.7.</p> |
| <p>Principle XI: The selection of the company's auditor</p> <p>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p> | | |
| <p>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.</p> | Yes | |

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

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| 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 Board of directors. |
| 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. |

General Manager
Liudmila Suboč



2 April 2015

DVARČIONIŲ KERAMIKA AB
COMPANY'S SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2014

All amounts are in LTL thousands, unless otherwise stated

| | Notes | 2014 | 2013 |
|--------------------------------------|-------|---------------|---------------|
| ASSETS | | | |
| Property, plant and equipment | 5 | 22 463 | 24 919 |
| Intangible assets | 6 | - | - |
| Investment property | 7 | 3 | 13 |
| Investments in associates | 8 | 300 | 300 |
| Total non-current assets | | 22 766 | 25 232 |
| Inventories | 9 | 1 453 | 3 413 |
| Prepaid income tax | | - | - |
| Trade and other receivables | 10 | 621 | 2 572 |
| Cash and cash equivalents | 11 | 1 575 | 1 128 |
| Total current assets | | 3 649 | 7 113 |
| TOTAL ASSETS | | 26 415 | 32 345 |
| EQUITY | | | |
| Share capital | 12 | 19 811 | 19 811 |
| Legal reserve | 12 | 125 | 125 |
| Revaluation reserve | 5 | 9 056 | 9 581 |
| Accumulated losses | | (31 026) | (24 023) |
| Total equity | | -2 034 | 5 494 |
| LIABILITIES | | | |
| Loans | 14 | 2 701 | 2 692 |
| Finance lease liabilities | 15 | - | - |
| Deferred tax liabilities | 28 | - | - |
| Long term prepayments | 29 | - | - |
| Total non-current liabilities | | 2 701 | 2 692 |
| Loans | 14 | 20 192 | 18 208 |
| Finance lease liabilities | 15 | - | - |
| Trade payables | 17 | 5 045 | 5 081 |
| Prepayments | | 27 | 35 |
| Other payables and accrued expenses | 18 | 484 | 835 |
| Total current liabilities | | 25 748 | 24 159 |
| Total liabilities | | 28 449 | 26 851 |
| TOTAL EQUITY AND LIABILITIES | | 26 415 | 32 345 |

The accompanying notes on pages from 39 to 62 are an integral part of these financial statements.

These financial statements were approved and signed on 2 April 2015:

General Manager
Liudmila Suboč

Chief Accountant
Elona Suveizdienė

DVARČIONIŲ KERAMIKA AB
COMPANY'S SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in LTL thousands, unless otherwise stated


| | Notes | 2014 | 2013 |
|--|--------|----------------|----------------|
| Income | 19, 20 | 2 459 | 16 137 |
| Cost of sales | 20, 21 | (1 909) | (13 212) |
| Gross profit | | 550 | 2 925 |
| Other income | 22 | 649 | 875 |
| Selling expenses | 23 | (1 086) | (3 543) |
| Administrative expenses | 24 | (5 619) | (7 010) |
| Result from operating activities | | (5 506) | (6 753) |
| Finance income | 26 | 3 | 2 |
| Finance cost | 26 | (2 025) | (472) |
| Net finance cost | | (2 022) | (470) |
| Loss before taxes | | (7 528) | (7 223) |
| Income tax (expense) benefit | 28 | - | 1 950 |
| Net loss | | (7 528) | (5 273) |
| Other comprehensive income, net of taxes | | 525 | 605 |
| Total comprehensive income for the period, net of taxes | | (7 003) | (4 668) |
| Loss per share | | | |
| Basic and diluted loss per share (in LTL) | 13 | (0,76) | (0,53) |

The accompanying notes on pages from 39 to 62 are an integral part of these financial statements.

These financial statements were approved and signed on 2 April 2015:



General Manager
Liudmila Suboč



Chief Accountant
Elona Švelzdiene

DVARČIONIŲ KERAMIKA AB
COMPANY'S SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in LTL thousands, unless otherwise stated

| | Notes | Share capital | Legal reserve | Revaluation reserve | Accumulated losses | Total equity |
|---|-----------|---------------|---------------|---------------------|--------------------|---------------|
| Balance as of 31 December 2012 | | 19 811 | 125 | 10 186 | (14 721) | 16 070 |
| Loss for the period | | - | - | - | (5 303) | (5 303) |
| Decrease of revaluation reserve due to depreciation or write-off of revaluated assets | | - | - | (605) | 605 | - |
| Balance as of 31 December 2013 | 12 | 19 811 | 125 | 9 581 | (24 023) | 5 494 |
| Loss for the period | | - | - | - | (7 528) | (7 528) |
| Decrease of revaluation reserve due to depreciation or write-off of revaluated assets | 5 | - | - | (525) | 525 | - |
| Balance as of 31 December 2014 | 12 | 19 811 | 125 | 9 056 | (31 026) | -2 034 |

The accompanying notes on pages from 39 to 62 are an integral part of these financial statements.

These financial statements were approved and signed on 2 April 2015



General Manager
Liudmila Suboč



Chief Accountant
Elona Suveizdienė


DVARČIONIŲ KERAMIKA AB
COMPANY'S SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

All amounts are in LTL thousands, unless otherwise stated

| | Notes | 2014 | 2013 |
|---|-------|----------------|----------------|
| Cash flow from operating activities: | | | |
| Loss for the year | | (7 528) | (5 273) |
| Adjustments for: | | | |
| Depreciation and amortization | 5,6,7 | 2 466 | 3 393 |
| Net result from disposal and write-off of non-current assets | | - | - |
| Impairment of non-current assets | 24 | - | - |
| Impairment of trade receivables | 10 | 14 | (51) |
| Write-off (reversal) of inventory to net realizable value | 9 | 426 | 642 |
| Interest, net | 26 | - | 240 |
| Deferred and income tax expenses | 28 | - | (1 950) |
| | | (2 906) | (2 999) |
| Change in inventories | 9 | 1 534 | 6 451 |
| Change in trade and other receivables | 10 | 1 937 | 1 327 |
| Change in trade and other payables | 17 | (36) | (1 954) |
| Change in prepayments | | (8) | (143) |
| Change in other payables and accrued expenses | 18 | (1 642) | (1 384) |
| | | 5 069 | 4 297 |
| Interest paid | | - | (66) |
| Income tax paid | | - | - |
| Net cash from operating activities | | - | (66) |
| Cash flows from investing activities: | | | |
| Acquisitions of non-current tangible assets | 5 | - | (80) |
| Acquisitions of intangible assets | 6 | - | - |
| Proceeds from sales of non-current tangible assets | | - | 14 |
| Interest received | 26 | 3 | 2 |
| Net cash from/used in investing activities | | 3 | (64) |
| Cash flows from financing activities: | | | |
| Loans received | 14 | - | - |
| Repayment of loans | 14 | - | - |
| Repayment of finance lease | 15 | - | (97) |
| Net cash used in financing activities | | - | (97) |
| Net decrease in cash and cash equivalents | | 447 | 1 071 |
| Cash and cash equivalents at the beginning of the year | 11 | 1 128 | 57 |
| Cash and cash equivalents at the end of the year | 11 | 1 575 | 1 128 |

The accompanying notes on pages from 39 to 62 are an integral part of these financial statements.

These financial statements were approved and signed on 2 April 2015



 General Manager
 Liudmila Suboč



 Chief Accountant
 Elona Suveizdienė

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2014
All amounts are in LTL thousands, unless otherwise stated

1. General Information

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

As of 31 December 2014 there were 30 employees in the Company (as of 31 December 2013 – 75).

Shares of Dvarčionių keramika AB are listed in AB NASDAQ OMX Vilnius. Restructured the company status Dvarčionių keramika received under judicial appeal from the order of 2013 December 23 rd.

2. Basis for preparation of financial statements

Statement of compliance

The Company's separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and requirements of the Republic of Lithuania Law on Accounting and Financial Reporting.

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

The Company does not prepare consolidated financial statements as it does not have any subsidiaries. The Company's individual financial statements (where investment into associate is accounted for using equity method) were not prepared as the equity method would be insignificant comparing to these financial statements.

Basis of preparation of financial statements

The financial statements are presented in national Lithuanian currency – Litas (LTL), which is the Company's functional currency. From 2 February 2002 to 31 December 2014 the euro exchange rate was 3,4528 LTL = 1 EUR. Since 1 January 2015 Lithuanian national currency is EUR and LTL is exchanged to EUR by exchange rate of 3,4528 LTL = 1 EUR. The financial statements have been prepared on acquisition cost basis, except for property, plant and equipment which are accounted at revaluated amount.

The financial year of the Company coincides with the calendar year.

Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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.

Market uncertainties

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, 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 management's assessment.

Useful lives of property, plant and equipment

Asset useful lives are assessed annually and changed when there is a reason to believe that the remaining live of the asset does not reflect to the position of technical condition, prospective economic utilization and physical condition.

Impairment of property, plant and equipment

The Company makes an assessment, at least once per year, whether there are any indicators that property, plant and equipment have suffered impairment. In cases of signs of impairment, the Company performs an impairment test in accordance with accounting policy set out in the Note 3.

Impairment of investments in associates

Since the shares of associated entity are not listed, the Company estimated the recoverable value of the investment based on the carrying value of the Company's share in the associate's net assets, which based on management's judgment approximates its fair value as of 31 December 2014.

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Net realizable value of inventories

The Company, at least once per year, evaluates the net realizable value of inventories and compares it with cost.

Impairment of accounts receivable

The Company makes an assessment, at least once per year, whether the impairment loss should be recorded in the statement of comprehensive income, and makes judgments 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 in 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 receivables.

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

Utilization of tax losses

Information about assumptions regarding the utilization of tax losses is included in the Note 28.

3. Significant accounting policies

The accounting policies set out below have been applied to all periods presented in these financial statements.

Foreign currency

Transactions in foreign currency are converted into Litas at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Litas at exchange rates prevailing at that date. Gains and losses arising on exchange are included in the statement of comprehensive income. As of 31 December the applicable rates used for principal currencies were as follows:

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|-----|-------------|-------------|-------------|
| USD | 2,8383 | 2,5098 | 2,6948 |
| EUR | 3,4528 | 3,4528 | 3,4528 |
| PLN | 0,80454 | 0,83218 | 0,82535 |

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

Financial assets

The company initially recognizes loans, amounts receivable and deposits on the date that they are originated. All other financial assets are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes 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 recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is 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 into financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. All purchases and sales of financial assets are recognized on the trade date. When financial assets are initially recognized, they are measured at fair value plus, except in case of investments at fair value through profit or loss, directly attributable transaction costs.

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

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash on hand, cash in transit and cash in banks, demand deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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Effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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

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

The Company has the following non-derivative financial liabilities: loans, borrowings, trade and other payables. Such financial liabilities are recognized initially at fair value plus any directly attributable transactions costs. After initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

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 associates 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 at their revaluated amounts, less any subsequent accumulated depreciation or subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period, usually each five years.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation reserve. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in a profit or loss. However, the decrease shall be debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

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

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

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

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Non-current assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or over the remaining finance lease term, whichever is shorter.

The gain or loss arising on the disposal of an item of non-current assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the 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 other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

Intangible assets

Intangible assets are stated at historical cost, less accumulated depreciation and accumulated impairment losses. Amortization 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, is initially recognized at acquisition cost. Subsequently all investment property is carried at cost less accumulated depreciation and impairment losses.

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

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Emission rights

The European Union Emission Allowance Trading Scheme was established by Directive 2003/07/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 to 2012, the third – from 2013 till 2020, to coincide with the first Kyoto Commitment Period. The scheme works on a Cap and Trade basis. The European Union Member States are required to set an emission cap for each phase for all 'installations' covered by the Scheme. This cap is established in 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 tons of carbon dioxide equivalents) permitted per installation for each phrase for which allowances will be allocated on an annual basis.

The 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).

The Member States must ensure that by 30 April of the following year the operator of each installation surrenders a number of allowances equal to the total emissions from the 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 the financial position.

If the Company has a lack of emission rights, the liability is recognized in the statement of financial position, which is estimated by the value of future expenses (economical recourses) required to settle the emission rights 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 recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company 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 expenses 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 recognized in the profit or loss.

Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis over the lease term.

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Inventories

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

Impairment

Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result event that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected and that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include defaults by the debtors, restructuring of an amount receivable on terms that were not used in normal business relations, indications that a party will enter bankruptcy, the disappearance of an active market of financial assets. 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 at individual and collective level. All individually significant receivables are assessed for a specific impairment. All individually significant receivables found not to be specifically impaired are collectively assessed for any impairment that has occurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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.

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).

The recoverable amount of an asset or cash-generating unit is 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 risk specific to the asset.

An impairment loss is recognized in the profit or loss if the carrying amount of the asset exceeds its estimated recoverable amount. Impairment losses are recognized in respect of CGUs are firstly allocated 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 recognized in prior periods are reversed when there is evidence that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

Dividends

Dividends are recognized 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 are implemented 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 recognized 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 Company;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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Sales of services

Sales of services are recognized on performance of the services.

Finance income and finance costs

Finance costs comprise interest expenses on borrowings, fines and profit (loss) from foreign currency change. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2014 the income tax applied to the Company is 15 % (2013 – 15 %).

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such deferred assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group and the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

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 diluted potential ordinary shares which comprise convertible notes.

Contingencies

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities in business combinations. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits is 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 end of the reporting period (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

Determination of fair value

Fair value is defined as the established 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.

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.

The influence of application of new standards, amendments of the standards in force and new explanations on financial statements

Amendments of the standards during the year

Amendment to IAS 27 Separate Financial Statements (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments.

The implementation of this amendment will not have any impact on the financial position or performance of the Company, however may result in additional disclosures in the financial statements of the Company.

Amendment to IAS 28 Investments in Associates and Joint Ventures (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates.

The implementation of this amendment will not have any impact on the financial position or performance of the Company, however may result in additional disclosures in the financial statements of the Company.

Amendment to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities(effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Implementation of this amendment will not have any impact on the financial statements of the Company.

Amendment to IAS 36 Impairment of Assets (effective for financial years beginning on or after 1 January 2014)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures.

The amendment do not have any impact on the financial position or performance of the Company, however may result in additional disclosures.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective for financial years beginning on or after 1 January 2014)

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The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

The amendment do not have any impact on the financial statements of the Company.

IFRS 10 Consolidated Financial Statements(effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities.

The amendment do not have any impact on the financial statements of the Company.

IFRS 11 Joint Arrangements(effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses.

The amendment do not have any impact on the financial statements of the Company.

IFRS 12 Disclosures of Interests in Other Entities(effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The amendment will result in additional disclosures in the Company's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities(effective for financial years beginning on or after 1 January 2014)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them.

The implementation of this amendment will not have any impact on the financial statements of the Company, as the Company is not an Investment entity.

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

Amendments to IAS 19 Employee Benefits (effective in EU since 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan.

The implementation of this amendment will not have any impact on the financial statements of the Company.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting.

The Company has not yet evaluated the impact of the implementation of this standard.

IFRS 14 Regulatory Deferral Accounts (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB.

The implementation of this standard will not have any impact on the Company's financial statements.

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Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The implementation of this amendment will not have any impact on the financial statements of the Company.

Amendments to IAS 16 and IAS 41. Agriculture: Bearer Plants (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

Bearer plants will now be within the scope of IAS 16 Property, Plant and Equipment and will be subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41 Agriculture. Government grants relating to bearer plants will now be accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, instead of in accordance with IAS 41.

The implementation of this amendment will not have any impact on the financial statements of the Company.

Amendments to IAS 27. Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

Amendments allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates.

The Company has not yet evaluated the influence of these amendments to the financial statements.

Amendments to IFRS 10 and IAS 28. Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

Amendments alter so that the current requirements for the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3. The gain or loss from the sale or contribution of assets that constitute a business between an investor and its associate or joint venture is recognised in full.

The Company has not yet evaluated the influence of these amendments to the financial statements.

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 15 replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and some revenue-related Interpretations; establishes a new control-based revenue recognition model; changes the basis for deciding whether revenue is recognised at a point in time or over time; provides new and more detailed guidance on specific topics; expands and improves disclosures about revenue.

The Company has not yet evaluated the influence of these amendments to the financial statements.

IFRIC Interpretation 21 Levies (effective in EU since 01 June, 2014)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs.

The implementation of this interpretation will not have any impact on the financial statements of the Company.

Improvements to IFRSs

Effective for financial years beginning on or after 1 July 2014, once endorsed by the EU:

In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:

- IFRS 1 First-time adoption of IFRS;
- IFRS 2 Share-based Payment;
- IFRS 3 Business Combinations;
- IFRS 8 Operating Segments;
- IFRS 13 Fair value Measurement;

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- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;
- IAS 38 Intangible Assets;
- IAS 40 Investment property.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Company.

Effective for financial years beginning on or after 1 July 2016, once endorsed by the EU:

In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:

- IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'
- IFRS 7 'Financial Instruments: Disclosures'
- IAS 19 'Employee Benefits'
- IAS 34 'Interim Financial statements'

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Company.

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 risk.

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.

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 analyze the risk 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 other party 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 between numerous customers.

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

At the reporting date the maximum credit risk for trade and other receivables by customers could be specified as follows:

| | 2014 | | 2013 | |
|---------------------------------------|-------------------|------------|-------------------|------------|
| | Amount receivable | Share, % | Amount receivable | Share, % |
| Customer 1 | 206 | 33 | 433 | 17 |
| Customer 2 | 77 | 12 | 347 | 13 |
| Customer 3 | 68 | 11 | 298 | 11 |
| Customer 4 | 63 | 10 | 219 | 9 |
| Customer 5 | 47 | 8 | 119 | 5 |
| Customer 6 | 34 | 5 | 102 | 4 |
| Other customers and other receivables | 126 | 21 | 1 054 | 41 |
| Total | 621 | 100 | 2 572 | 100 |

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At the reporting date the maximum credit risk for trade and other receivables by geographic regions could be specified as follows:

| | <u>2014</u> | <u>2013</u> |
|-----------------|-------------|--------------|
| Lithuania | 513 | 1 654 |
| Ather countries | 108 | 918 |
| Total | 621 | 2 572 |

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

| | <u>2014</u> | | <u>2013</u> | |
|--------------------|---------------------|------------------------------|---------------------|------------------------------|
| | <u>Total amount</u> | <u>Individually Impaired</u> | <u>Total amount</u> | <u>Individually Impaired</u> |
| Not overdue | 319 | - | 1 471 | - |
| Overdue 0-30 days | 37 | - | 202 | - |
| Overdue 31-60 days | 20 | - | 368 | - |
| Overdue 61-90 days | 21 | - | 198 | - |
| More than 91 day | 196 | 320 | 559 | 306 |
| Total | 593 | 320 | 2 798 | 306 |

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 complicated conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company seeks to ensure that it has sufficient cash on demand to meet expected operating expenses, including the serving of financial liabilities; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted (for example, natural disasters).

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

Below in the table maturities of undue trade receivables are provided:

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>3 months or less</u> | <u>3-6 months</u> | <u>6-12 months</u> |
|------------------------|------------------------|-------------------------------|-------------------------|-------------------|--------------------|
| As of 31 December 2013 | 1 471 | 1 471 | 1 170 | 301 | - |
| As of 31 December 2014 | 319 | 319 | 65 | 254 | - |

The contractual maturities of liabilities, including estimated interest payments are as follows:

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>6 months or less</u> | <u>6-12 months</u> | <u>2-5 years</u> |
|-------------------------------------|------------------------|-------------------------------|-------------------------|--------------------|------------------|
| As of 31 December 2013 | | | | | |
| Loans | 20 900 | (20 900) | (18 698) | - | (2 692) |
| Finance lease liabilities | - | - | - | - | - |
| Trade payables | 5 081 | (5 081) | (5 081) | - | - |
| Prepayments | 35 | (35) | (35) | - | - |
| Other payables and accrued expenses | 835 | (835) | (835) | - | - |
| Total | 26 851 | (26 851) | (24 159) | - | (2 692) |
| As of 31 December 2014 | | | | | |
| Loans | 22 893 | (22 893) | (20 192) | - | (2 701) |
| Finance lease liabilities | - | - | - | - | - |
| Trade payables | 5 045 | (5 045) | (5 045) | - | - |
| Prepayments | 27 | (27) | (27) | - | - |
| Other payables and accrued expenses | 484 | (484) | (484) | - | - |
| Total | 28 449 | (28 449) | (25 748) | - | (2 701) |

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Market risk

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

Interest risk

The Company's borrowings are subject to variable interest rates related to VILIBOR, EURIBOR and LIBOR EUR. As of 31 December 2014 the Company did not use any financial instruments to hedge its exposure of cash flow risk related to debt instruments with variable interest rates or price risk related to debt instruments with fixed interest rate.

Financial liabilities with variable interest rate were as follows:

| | Contractual currency | 2014 | 2013 |
|---------------------------|---------------------------------|---------------|---------------|
| Loans | EUR | 20 691 | 18 698 |
| Loans | LTL | 2 202 | 2 202 |
| Finance lease liabilities | EUR | - | - |
| Total | | 22 893 | 20 900 |

The interest rate of these agreements in 2014 is from 2.838 % to 4.55 % (2013 – from 1.67 % to 4.86 %).

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 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 could occur if the government macroeconomic policy changes.

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

| | 2014 | | 2013 | |
|-------|--------------------|----------------|--------------------|----------------|
| | 31 December | Average | 31 December | Average |
| 1 EUR | 3,4528 | 3,4528 | 3,4528 | 3,4528 |
| 1 USD | 2,8383 | 2,6608 | 2,5098 | 2,5505 |
| 1 PLN | 0,80454 | 0,8140 | 0,83218 | 0,82950 |

The Company's foreign currency risk was as follows:

| | LTL | EUR | USD | PLN |
|-------------------------------|----------------|-----------------|------------|------------|
| As of 31 December 2013 | | | | |
| Trade and other receivables | 1 654 | 918 | - | - |
| Cash and cash equivalents | 249 | 858 | - | 21 |
| Loans | (2 202) | (18 698) | - | - |
| Finance lease liabilities | - | - | - | - |
| Trade payables | (3 584) | (1 497) | - | - |
| Total | (3 883) | (18 419) | - | 21 |
| As of 31 December 2014 | | | | |
| Trade and other receivables | 519 | 102 | - | - |
| Cash and cash equivalents | 20 | 1 536 | - | 19 |
| Loans | (2 202) | (20 691) | - | - |
| Finance lease liabilities | - | - | - | - |
| Trade payables | (5 033) | (12) | - | - |
| Total | (6 696) | (19 065) | - | 19 |

5. Property, plant and equipment

As of 31 December the Company's property, plant and equipment consisted of the following:

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| | Buildings | Machinery and equipment | Vehicles | Other assets | Construction in progress | Total |
|---|---------------|-------------------------|--------------|--------------|--------------------------|----------------|
| Revaluated amount and acquisition cost | | | | | | |
| As of 31 December 2012 | 54 618 | 88 993 | 1 049 | 5 169 | 633 | 150 462 |
| Additions | - | 80 | - | - | - | 80 |
| Disposals | - | - | (55) | (2) | - | (57) |
| Write-offs | - | (75) | - | (806) | - | (881) |
| As of 31 December 2013 | 54 618 | 88 998 | 994 | 4 361 | 633 | 149 604 |
| Additions | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| Write-offs | - | - | - | (9) | - | (9) |
| As of 31 December 2014 | 54 618 | 88 998 | 994 | 4 352 | 633 | 149 595 |
| Accrued depreciation and impairment | | | | | | |
| As of 31 December 2012 | 33 187 | 82 745 | 919 | 4 743 | 633 | 122 227 |
| Depreciation per year | 1 981 | 1 192 | 29 | 180 | - | 3 382 |
| Disposals | - | - | (55) | (2) | - | (57) |
| Write-offs | - | (62) | - | (805) | - | (867) |
| As of 31 December 2013 | 35 168 | 83 875 | 893 | 4 116 | 633 | 124 685 |
| Depreciation per year | 1 978 | 360 | 29 | 89 | - | 2 456 |
| Disposals | - | - | - | - | - | - |
| Write-offs (revalued assets) | - | - | - | 1 | - | 1 |
| As of 31 December 2014 | 37 146 | 84 235 | 922 | 4 206 | 633 | 127 142 |
| Balance of 31 12 2013 | 19 450 | 5 123 | 101 | 245 | - | 24 919 |
| Balance of 31 12 2014 | 17 472 | 4 763 | 73 | 155 | - | 22 463 |

Depreciation costs are accounted for selling and administrative expenses. Depreciation expenses accounted in selling expenses 2014 – LTL 278 thousand (2013 – LTL 362 thousand) and accounted for in administrative expenses 2014 – LTL 2 188 thousand (2013 – LTL 360 thousand). Significant administrative expenses depreciation costs increase due to the fact that its products were not to be discharged at a cost most of the depreciation costs.

The Company's property, plant and equipment last time were revaluated on 15 November 2010, based on valuation performed by independent appraisers. Valuation was made on the basis of market value for buildings and replacement value method for machinery and equipment.

As of 31 December 2014 the unpaid amount of the vehicles, machinery and equipment acquired under finance leases wasn't.

As of 31 December 2011 the carrying amount of the property, plant and equipment pledged to Swedbank AB for the loan (Note 14) consisted of the following:

| | 2014 | 2013 |
|-------------------------|---------------|---------------|
| Buildings | 17 472 | 19 450 |
| Machinery and equipment | 2 842 | 3 629 |
| Total | 20 314 | 23 079 |

Evaluation of property, plant and equipment

Production line not in use

Due to decreasing demand for tiles in January 2009 shareholders made a decision to stop Nasseti production line and from 2013 stopped all other production equipment, which is not used so far.

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Revaluation of property, plant and equipment

The Company's property, plant and equipment were revaluated on 15 November 2010. The revaluation was performed by independent appraisers. The increase in buildings value by LTL9, 014 thousand (reduced by LTL 352 thousand of deferred tax liability) was recognized in equity's revaluation reserve. The decrease in buildings value amounted to LTL 1,537 thousand from which LTL 232 thousand reduced equity's revaluation reserve for remaining credits of not depreciated balances that existed in the revaluation reserve as of 31 December 2010 and LTL 1,035 thousand were accounted for in expenses in the 2010 statement of comprehensive income. The increase in equipment value amounted to LTL 2,636 thousand (reduced by LTL 395 thousand of deferred tax liability) and was recognized in equity's revaluation reserve. The decrease in equipment value amounted to LTL 317 thousand and was accounted for in expenses in the 2010 statement of comprehensive income.

As of 31 December 2014 revaluation reserve decreased in amount of LTL 525 thousand due to depreciation expenses effect and amounted to LTL 9 056 thousand.

As of 31 December 2013 revaluation reserve decreased in amount of LTL 605 thousand due to depreciation expenses effect and amounted to LTL 9 581 thousand.

Assessment of the value in use of property, plant and equipment

The Company also assessed the value in use of the property, plant and equipment as of 31 December 2014. The value in use was determined by discounting the future cash flows generated from the continuing use of the property, plant and equipment.

Based on these assumptions, the recoverable amount of the property, plant and equipment exceeded the carrying value of those assets.

6. Intangible assets

As of 31 December intangible assets consisted of the following:

| | Software |
|---------------------------------|-----------------|
| Cost | |
| As of 31 December 2013 | 313 |
| Additions | - |
| Write-downs | - |
| As of 31 December 2014 | 313 |
| Accumulated amortization | |
| As of 31 December 2013 | 313 |
| Amortization | - |
| As of 31 December 2014 | 313 |
| Carrying amount | |

The amortization expenses were included in administrative expenses.

7. Investment property

As of 31 December investment property consisted of the following:

| | Buildings |
|---|------------------|
| Cost | |
| As of 31 December 2012 | 95 |
| Transfer to property, plant and equipment | - |
| As of 31 December 2013 | 95 |
| Additions | - |
| As of 31 December 2014 | 95 |
| Accumulated depreciation | |
| As of 31 December 2012 | 73 |

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| | |
|-------------------------------|-----------|
| Depreciation | 9 |
| As of 31 December 2013 | 82 |
| Depreciation | 10 |
| As of 31 December 2014 | 92 |
| Carrying amount | |
| As of 31 December 2013 | 13 |
| As of 31 December 2014 | 3 |

Revenue from lease during 2014 amounted to LTL 382 thousand (2013 – LTL 563 thousand) while revenue from lease of the Company's investment property was LTL 32 thousand (2013 – LTL 41 thousand).

The fair value of investment property corresponds to carrying values.

As of 31 December the carrying amount of investment property pledged to Swedbank AB for the loan (Note 14) consisted of the following:

| | | |
|-----------|-------------|-------------|
| | 2014 | 2013 |
| Buildings | 3 | 13 |

8. Investments into associates

As of 31 December investments into associates consisted of the following:

| | 2014 | | 2013 | |
|-----------------------------------|-----------------|-------------|-----------------|-------------|
| | Carrying amount | Ownership % | Carrying amount | Ownership % |
| Baltijos keramika UAB (Lithuania) | 300 | 30.6 | 300 | 30.6 |
| Total | 300 | | 300 | |

The associate is engaged in asset management activities and its assets and liabilities the carrying value are approximates fair value. As of 31 December 2014 and 2013 the associate' net assets amounted to LTL 663 thousand and LTL 777 thousand respectively.

9. Inventories

As of 31 December inventories consisted of the following:

| | 2014 m. | 2013 m. |
|--|----------------|----------------|
| Raw and auxiliary materials | 1 469 | 1 546 |
| Finished goods | 978 | 2 203 |
| Goods for resale | 659 | 891 |
| | 3 106 | 4 640 |
| Less: allowance to net realizable value | (1 653) | (1227) |
| Total | 1 453 | 3 413 |
| Allowance to net realizable value as of 1 January | (1 227) | (585) |
| Decrease per year | (426) | (642) |
| Allowance to net realizable value as of 31 December | (1 653) | (1 227) |

As of 31 December 2014 and 2013 inventories, including raw and auxiliary materials, work in progress, finished goods and goods for resale amounted to LTL 10,000 thousand were pledged for the loan from bank (Note 14).The inventory write-down to net worth has been taken into account individually for each item visually realizable value, taking them more visually appealing.

As of 31 December 2014 cost of inventories was reduced to net realizable value by LTL 1 653 thousand (as of 31 December 2013 – LTL 1 227 thousand). The write-downs of inventories to net realizable value are recognized in administrative expenses.

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10. Trade and other receivables

As of 31 December receivables consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------|-------------|--------------|
| Trade receivables | 913 | 2 798 |
| Prepayments to suppliers | 22 | 76 |
| Prepaid expenses | 1 | 3 |
| Other amounts receivable | 5 | 1 |
| | <u>941</u> | <u>2 878</u> |
| Less: allowance for trade receivables | (320) | (306) |
| Total | <u>621</u> | <u>2 572</u> |

For the year ended 31 December movement in the allowance for doubtful debts consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|--|--------------|--------------|
| Allowance of trade and other receivables as of 1 January | 306 | 357 |
| Increase in allowance for the period | 138 | 57 |
| Reversal of allowance for the period | (124) | (108) |
| Allowance for trade and other receivables as of 31 December | <u>(320)</u> | <u>(306)</u> |

Increase in allowance for the period amounted to LTL 138 thousand (2013 – LTL 57 thousand) and was recognized in administrative expenses. During 2014 the Company wrote off LTL 124 thousand (2013 – LTL 108 thousand) of bad debts.

11. Cash and cash equivalents

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

| | <u>2014</u> | <u>2013</u> |
|-----------------|--------------|--------------|
| Cash at bank | 1 566 | 1 115 |
| Cash on hand | 5 | 6 |
| Cash in transit | 4 | 7 |
| In total | <u>1 575</u> | <u>1 128</u> |

Cash in Swedbank AB accounts and future cash inflows are pledged to secure the credit facilities. As of 31 December 2014 the cash balances of the Company in these accounts was 8 thousand LTL (Note 14).

12. Share capital and legal reserve

As of 31 December 2014 the Company's share capital consisted of 9,905,460 ordinary shares with the par value LTL 2 each. All shares were fully paid.

The holders of ordinary shares are entitled to one vote per share at shareholder's meeting and are entitled to receive dividends when they are published, as well as the recovery of the share capital in case of share capital's decrease. In 2012 the nominal value of shares has not changed.

The structure of shareholders is as follows:

| Shareholders | 2014 | | | 2013 | | |
|--------------|------------------|---------------------|---------------|------------------|---------------------|---------------|
| | Number of shares | Nominal share value | % | Number of shares | Nominal share value | % |
| Misota UAB | 9 206 028 | - | 92.93 | 9 206 028 | - | 92.93 |
| Others | 699 432 | - | 7.07 | 699 432 | - | 7.07 |
| Total | <u>9 905 460</u> | <u>19 811</u> | <u>100.00</u> | <u>9 905 460</u> | <u>19 811</u> | <u>100.00</u> |

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net distributable profit are compulsory until the reserve reaches 10% of the authorized capital. This reserve cannot be used to cover accumulated losses.

As of 31 December 2014 the Company's reserve was not fully formed. It consisted only 0.63 % of the share capital and amounted to LTL125 thousand.

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13. Earnings per share

| | <u>2014</u> | <u>2013</u> |
|---|---------------|---------------|
| Net losses for the year | (7 528) | (5 273) |
| Weighted average number of shares in issue (thousand) | 9 905 | 9 905 |
| Total | (0,76) | (0,53) |

The Company has no issued potential shares or convertible bonds. The diluted profit (loss) per share is the same as the basic profit (loss) per share.

14. Loans

As of 31 December loans consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|--|---------------|---------------|
| Within one year | 17 400 | 17 400 |
| In the second year | - | - |
| From the third to fifth year inclusive | 2 683 | 985 |
| After five years | - | 1698 |
| Total: | 20 083 | 20 083 |

As of 31 December accrued expenses for loans consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|-----------------|--------------|-------------|
| Swedbank AB | 2 792 | 799 |
| J. Raišelis | 9 | 9 |
| Misota UAB | 2 | 2 |
| Raico group UAB | 7 | 7 |
| Total: | 2 810 | 817 |

Terms and conditions of outstanding loans were as follows.

| | Lender | Currency | Nominal interest rate | Year of maturity | 31 December 2014 | | 31 December 2013 | |
|-----------------|-----------------|----------|----------------------------|------------------|------------------|----------------|------------------|----------------|
| | | | | | Nominal value | Carrying value | Nominal value | Carrying value |
| Finance lease 1 | MISOTA UAB | LTL | 12 month VILIBOR +1 proc. | 2019 | 460 | 460 | - | - |
| Finance lease 2 | RAICO group UAB | LTL | 12 month VILIBOR +1 proc. | 2019 | 1 238 | 1 238 | - | - |
| Finance lease 3 | Swedbank AB | EUR | 3 month LIBOR EUR +1 proc. | - | 17 400 | 17 400 | 17 400 | 17 400 |
| Finance lease 4 | J. Raišelis | EUR | 6 month EURIBOR +2,5 proc. | 2018 | 490 | 490 | 490 | 490 |
| Finance lease 5 | J. Raišelis | LTL | 12 month VILIBOR + 4 proc. | 2018 | 495 | 495 | 495 | 495 |
| | | | | | 20 083 | 20 083 | 18 385 | 18 385 |

The loan and accrued interests from Swedbank AB is secured by property, plant and equipment (Note 5), lease rights (Note 16), inventories (Note 9), cash and cash equivalents (Note 11).

15. Finance lease liabilities

As of 31 December the minimum lease payments finance lease liabilities are not.

16. Operating lease

The Company as lessee

The non-cancellable operating lease rentals consist of the rentals of vehicles. The Company does not have non-cancellable lease agreements for premises.

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The Company leases a land of 10.1 ha situated in Keramikų str. 2, Vilnius. The land lease matures in 2097. In addition, clay quarry is leased in Ukmerge and minor land plots in Kaunas, Klaipėda, Telšiai, Kedainiai and Utena.

The land lease rights are pledged to Swedbank AB for the financial facility granted (Note 14).

The Company as lessor

The Company leases out its investment property held under operating leases (Note 7). However, the Company does not have non-cancellable lease agreements. As of 31 December 2014 income from lease amounted to LTL 382 thousand and was recognized as other income in statement of comprehensive income.

17. Trade payables

As of 31 December trade payables consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|
| Amounts payables: | | |
| Lithuanian suppliers | 3 542 | 3 584 |
| Foreign suppliers | 1 503 | 1 497 |
| | <u>5 045</u> | <u>5 081</u> |
| Less: amount due for settlement within one year | (5 045) | (5 081) |
| Amount due for settlement after one year | <u>-</u> | <u>-</u> |

18. Other payables and accrued expenses

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

| | <u>2014</u> | <u>2013</u> |
|-----------------------|-------------|-------------|
| Salaries payable | - | 201 |
| Taxes payable | 47 | 246 |
| Vacation reserve | 437 | 348 |
| Other amounts payable | - | 40 |
| Total | <u>484</u> | <u>835</u> |

19. Revenue

For the year ended 31 December revenue consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|--------------|---------------|
| Revenue from produced goods | 1 712 | 12 522 |
| Revenue from goods for resale | 742 | 3 083 |
| Revenue from services | 4 | 522 |
| Revenue from raw materials sold | 1 | 10 |
| Total | <u>2 459</u> | <u>16 137</u> |

20. Operating segments

For management purposes, the Company segregates two 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 the performance of the Company is included below:

| | <u>Wholesale</u> | | <u>Retail sale</u> | | <u>Total</u> | |
|-------------------------------|------------------|---------------|--------------------|--------------|--------------|---------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Revenue from produced goods | 310 | 9 148 | 1 402 | 3 375 | 1 712 | 12 522 |
| Revenue from goods for resale | - | 2 103 | 742 | 980 | 742 | 3 083 |
| Revenue from raw materials | - | 10 | 1 | - | 1 | 10 |
| Revenue from services | - | 501 | 4 | 21 | 4 | 522 |
| Total revenue | <u>310</u> | <u>11 762</u> | <u>2 149</u> | <u>4 375</u> | <u>2 459</u> | <u>16 137</u> |
| Cost of segment | (248) | (10 278) | (1661) | (2 934) | (1 909) | (13 212) |
| Result of segment | <u>62</u> | <u>1 484</u> | <u>488</u> | <u>1 441</u> | <u>550</u> | <u>2 925</u> |

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| | | | | | |
|---|-------|--------|-------|----------------|----------------|
| Unallocated expenses | - | - | - | (6 705) | (10 553) |
| Unallocated other activity income, net | - | - | - | 649 | 875 |
| Result from operating activities | - | - | - | (5 506) | (6 753) |
| Interest expenses | - | - | - | - | (310) |
| Other financial expenses, net | - | - | - | (2 022) | (160) |
| Income tax | - | - | - | - | 1 950 |
| Loss for the period | - | - | - | (7 528) | (5 273) |
| Segment assets | | | | | |
| Unallocated assets | | | 3 025 | 3 825 | |
| | 9 097 | 12 277 | | | 12 122 |
| Total assets | - | - | - | - | 14 293 |
| Unallocated liabilities | | | | | |
| Total liabilities | - | - | - | - | 28 449 |

21. Cost of sales

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

| | 2014 | 2013 |
|-----------------------------------|--------------|---------------|
| Cost of sales of produced goods | 1 317 | 11 311 |
| Cost of sales of goods for resale | 591 | 1 888 |
| Cost of sales of raw materials | 1 | 13 |
| Total | 1 909 | 13 212 |

22. Other income

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

| | 2014 | 2013 |
|---|------------|------------|
| Rent and other income, net result | 610 | 889 |
| Net results on disposals and write-offs of non-current assets | 1 | (14) |
| Creditors granted discounts | 38 | - |
| Total | 649 | 875 |

23. Selling expenses

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

| | 2014 | 2013 |
|--------------------------------------|--------------|--------------|
| Personnel expenses | 545 | 1 380 |
| Transportation expenses | 93 | 814 |
| Rent expenses | 51 | 322 |
| Depreciation and amortization | 278 | 362 |
| Advertisement and marketing expenses | 11 | 159 |
| Business trip expenses | 3 | 58 |
| Communication expenses | 6 | 24 |
| Bank service expenses | 8 | 25 |
| Security expenses | 6 | 12 |
| Representation expenses | - | 5 |
| Facility operation expenses | 69 | 90 |
| Insurance expenses | 1 | 1 |
| Other expenses | 15 | 291 |
| Total | 1 086 | 3 543 |

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24. Administrative expenses

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

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Personnel expenses | 932 | 1 070 |
| Depreciation and amortization | 359 | 360 |
| Tax expenses | 302 | 262 |
| Security expenses | 179 | 151 |
| Transport expenses | 35 | 71 |
| Consultation expenses | 65 | 67 |
| Repair and maintenance expenses | 416 | 408 |
| Insurance expenses | 15 | 34 |
| Bank service expenses | 4 | 14 |
| Audit expenses | 14 | 18 |
| Communication expenses | 18 | 38 |
| Business trip expenses | 2 | 15 |
| Representation expenses | 1 | 8 |
| Allowance for accounts receivable | 138 | 57 |
| Postal service, subscription expenses | 2 | 7 |
| Inventory write down (reversal) to net realizable value | 426 | 642 |
| Other expenses | 2 711 | 3 788 |
| Total | <u>5 619</u> | <u>7 010</u> |

Other total cost of 2,41 million litas production costs incurred during production downtime.

25. Remuneration expenses

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

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Salaries | 1 506 | 3 254 |
| Compulsory social security contributions | 606 | 1 008 |
| Increase in vacation reserve | (199) | (172) |
| Total | <u>1 913</u> | <u>4 090</u> |

26. Finance activity income and expenses, net

For the year ended 31 December financial activity income and expenses consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|---------------------|
| Gain on currency exchange | - | - |
| Interest income | 1 | 2 |
| Fines and penalties received | - | - |
| Dividends | 2 | - |
| Finance activity income | <u>3</u> | <u>2</u> |
| Interest expenses | 24 | 310 |
| Fines and penalties paid | 2 001 | 158 |
| Loss on currency exchange | - | 4 |
| Finance activity expenses | <u>2 025</u> | <u>472</u> |
| Net finance activity expenses, net | <u>(2 022)</u> | <u>(470)</u> |

27. Interest expenses

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

| | <u>2014</u> | <u>2013</u> |
|---------------------------|------------------|-------------------|
| Interest on loans | 24 | 305 |
| Interest on finance lease | - | 5 |
| Total | <u>24</u> | <u>310</u> |

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28. Income tax (expenses) benefit

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.

As of 31 December deferred tax consisted of the following:

| | 2014 | | 2013 | |
|---|-----------------------|--------------------|-----------------------|--------------------|
| | Temporary differences | Deferred tax (15%) | Temporary differences | Deferred tax (15%) |
| Deferred tax asset | | | | |
| Impairment of receivables | 320 | 48 | 306 | 46 |
| Write-down of inventories to net realizable value | 1 653 | 248 | 1 226 | 184 |
| Vacation reserve | 47 | 7 | 246 | 37 |
| Tax losses carried forward | 17 511 | 2 627 | 12 874 | 1 931 |
| Deferred tax asset | | 2 930 | | 2 198 |
| Unrecognized deferred tax asset | | (967) | | (142) |
| Recognized deferred tax asset | | 1 963 | | 2 056 |
| Deferred tax liability | | | | |
| Non-current tangible assets | 13 089 | (1963) | 13 707 | (2 056) |
| Deferred tax liability | | (1963) | | (2 056) |
| Deferred tax liability, net | | - | | - |

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

29. Related party transactions

The transactions with related parties were as follows:

- Baltijos keramika UAB (associate);
- Ultimate shareholder Juozas Raišelis;
- Dvarčionių prekyba UAB (entity controlled by Company's ultimate shareholder);
- Raico Group UAB (entity controlled by Company's ultimate shareholder);
- Misota UAB (the shareholder of the Company);
- Car care UAB (entity controlled by Company's ultimate shareholder);
- p. Liudmila Suboč (key management personnel), from 23-07-2013;
- Investicon UAB (entity controlled by Company's ultimate shareholder).

a) transactions with related parties

| | Baltijos keramika UAB | | Juozas Raišelis | | Dvarčionių prekyba UAB | |
|-------------------------------|-----------------------|----------|-----------------|-----------|------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenue: | | | | | | |
| Sale of goods | - | - | - | - | - | - |
| Other | 7 | 5 | - | - | 7 | 5 |
| Total | 7 | 5 | - | - | 7 | 5 |
| Loans received | - | - | - | - | - | - |
| Financial expenses (interest) | - | - | - | 38 | - | - |
| Total | - | - | - | 38 | - | - |

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| | Raico group UAB | | Investicon UAB | | Misota UAB | | Car care UAB | |
|----------------------------|-----------------|------------|----------------|----------|------------|----------|--------------|-----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenue: | | | | | | | | |
| Sales of goods | - | - | - | - | - | - | - | 42 |
| Other | 7 | 4 | - | 8 | - | - | - | - |
| Total | 7 | 4 | - | 8 | - | - | - | 42 |
| Operating expenses | 253 | 293 | - | 1 | - | - | - | 19 |
| Financial costs (interest) | - | 7 | - | - | - | 2 | - | - |
| Total | 253 | 300 | - | 1 | - | 2 | - | 19 |

b) balances of accounts receivable/payable between related parties

| | Baltijos keramika UAB | | Juozas Raišelis | | Audris Imbrasas | | Dvarčionių prekyba UAB | | Car care UAB | |
|-----------------------------|-----------------------|-----------|-----------------|------------|-----------------|-----------|------------------------|-----------|--------------|-----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Trade and other receivables | 8 | - | - | - | 10 | 10 | 47 | 47 | 8 | - |
| Total | 8 | - | - | - | 10 | 10 | 47 | 47 | 8 | - |
| Accrued interest | - | - | - | 9 | - | - | - | - | - | - |
| Loans received | - | - | - | 985 | - | - | - | - | - | - |
| Trade payables | 67 | 67 | - | - | - | - | - | - | - | 67 |
| Prepayments | - | - | - | - | - | - | - | - | - | - |
| Total | 67 | 67 | - | 994 | - | - | - | - | - | 67 |

| | Misota UAB | | Raico Group UAB | |
|------------------|------------|------------|-----------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| Accrued interest | - | 2 | - | 7 |
| Loans received | - | 460 | - | 1 238 |
| Trade payables | - | - | - | 19 |
| Prepayments* | - | - | - | - |
| Total | - | 462 | - | 1 264 |

30. Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties at market prices but not in forced or liquidation sale.

Financial assets and financial liabilities as on the 31th of December 2014

| In LTL | Carrying amount | Fair value |
|---|-----------------|--------------|
| Advance payments and deferred expenditure | 23 | 23 |
| Trade receivables | 593 | 593 |
| Other receivables | 5 | 5 |
| Cash and cash equivalents | 1 575 | 1 575 |
| Total financial assets | 2 196 | 2 196 |

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| | | |
|---|---------------|---------------|
| Loan and other interest-bearing amounts | 22 893 | 22 893 |
| Trade payables | 5 045 | 5 045 |
| Other payables | 511 | 511 |
| Total financial liabilities | 28 449 | 28 449 |

31. Restructurised liabilities

By the order of the Court of Appeal of Lithuania of 23 December 2013, the company was granted the status of the company undergoing restructuring. Vilnius regional administrative Court approved the list of creditors and their financial claims According to the judgements dated 21/03/2014 and 22/05/2014.

Restructurised liabilities as at December 31, 2014:

| | |
|------------------------------|---------------|
| | 2014 Y |
| Collateralised requirements | 20192 |
| 2nd degree creditor's claims | 7249 |
| Total | 27441 |

32. Commitments and off balance sheet items

s of 31 December commitments consisted of the following:

| | | |
|--|-------------|-------------|
| | 2014 | 2013 |
| Asset insurance payments (compulsory according to the loan contract) | 1 | 12 |
| Finance lease interest till full repayment of lease | - | - |
| Total | 1 | 12 |

Emission rights movement:

| | | |
|--|---------------|---------------|
| | 2014 | 2013 |
| Balance as of 1 January, units | 28 112 | 19 265 |
| Allocated for the Company for the year, units | 12 053 | 12 267 |
| Consumed by the Company during the year, units | - | (3 420) |
| Balance as of 31 December, units | 40 165 | 28 112 |

33. Claims and litigations

According to Article 8 of the Law on Restructuring 1, point 2, of the order to raise the effective date of the restructuring proceedings suspended interest calculation.

Thus, from a 2013-12-23 d. (of the order for the restructuring of instituting effective date) interest on loans charged.

Accrued interest on imaginary 2014. up 262 thousand LTL.

34. Subsequent events

There were no subsequent events which could have a material impact to the financial statements for the period ended as of 31 December 2014.

35. Legal proceedings

Director General Statement on Dvarcioniu ceramics restructuring proceedings.

In 2013 the General director of Dvarčionių keramika was brought statement on Dvarčionių keramika AB restructuring proceedings. Is currently pending approval of the restructuring plan, the issue of the Vilnius Regional Court.

In 2014 the company was not involved in any legal proceedings, wich in management mind would have a material effect on the financial statements.

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36. Going concern

Due to lack of working capital in 2013 August stopped production in 2014 was not renewed. These changes resulted in protracted legal proceedings approving the restructuring plan.

The Company's management believes that the Company will continue its activity in 2014 and beyond.