# VILNIAUS BALDAI AB

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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*Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.*

## Independent Auditor's Report

To the shareholders of Vilniaus Baldai AB

### Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of Vilniaus Baldai AB ("the Company") and its subsidiary ("the Group") set out on pages 39 to 74, which comprise the stand-alone and consolidated statements of financial position as of 31 December 2012 and the stand-alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("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 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 audit opinion.

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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2012, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on other legal and regulatory requirements**

Furthermore, we have read the consolidated annual report for the year ended 31 December 2012 set out on pages 5 to 38 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2012.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Rasa Radzevičienė
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
18 February 2013

Confirmed __ __ 2013
at the Board Meeting

**COMPANIES COMPOSING THE GROUP**

Vilniaus Baldai AB (hereinafter – the Company) prepares both separate Company's and consolidated financial statements. The Group (hereinafter – the Group) consists of Vilniaus Baldai AB and subsidiary ARI-LUX UAB in which the Company directly controls 100% of shares.

**GENERAL INFORMATION ABOUT THE COMPANY:**

| Name | Joint stock company Vilniaus Baldai AB |
|---|---|
| Legal form | Joint stock company |
| Code | 121922783 |
| VAT payer's code | LT219227811 |
| Authorised capital | LTL 15,545,068, divided into 3,886,267 ordinary registered shares with the par value of LTL 4 each. |
| Office address | Savanoriu Ave. 178B, LT-03154 Vilnius |
| Telephone | (8~5) 252 57 00 |
| Fax | (8~5) 231 11 30 |
| E-mail | info@vilniausbaldai.lt |
| Internet website | www.vilniausbaldai.lt |
| Registration date and place | 9 February 1993, Vilnius City Board |
| Register, where all the information about the Company is collected and stored | Register of legal entities |
| Main type of the activity | Design, production and selling of the office, bedroom, living-room and hall furniture |

**GENERAL INFORMATION ABOUT THE SUBSIDIARY:**

| Name | Limited liability company ARI-LUX UAB |
|---|---|
| Legal form | Limited liability company |
| Code | 120989619 |
| VAT payer's code | LT209896113 |
| Authorised capital | LTL 10,000 |
| Office address | Savanoriu Ave. 178, LT-03154 Vilnius |
| Telephone | (8~5) 252 57 44 |
| Fax | (8~5) 252 57 44 |
| E-mail | aleksas.rimkus@ari-lux.lt |
| Internet website | |
| Registration date and place | 28 October 1991, Vilnius City Board |
| Register, where all the information about the Company is collected and stored | Register of legal entities |
| Main type of the activity | Packaging |

## 1. REVIEW OF THE COMPANIES GROUP'S POSITION, ACTIVITY AND DEVELOPMENT, CHARACTERISATION OF THE MAIN TYPES OF RISKS AND UNCERTAINTIES, FACED BY THE COMPANY

Vilniaus Baldai AB is a leading manufacturer of flat-pack furniture. The public company Vilniaus Baldai is the company that cherishes time-honoured traditions, applies modern technologies and enjoys a stable and continuous business growth.

The activity of Vilniaus Baldai was successful in 2012. The revenue was LTL 230 million and that was one of the best results in the Company's history. The Company continued to focus on cost reduction, increasing productivity and competitiveness levels and searching for new sales orders in 2012. Due to the optimisation of the labour processes, the labour productivity increased by 14 %, and one employee averagely manufactured production for LTL 601 thousand during 2012. We expect that the continued developments will help to implement the strategy of the Company. Furthermore, the rational use of the resources of the Company, increase of productivity aiming for the European standards and strict control of the quality will ensure better operating results of the Company in the future.

**Main risks faced by the Group:**

**Economic risk factors**. The sales of Vilniaus Baldai AB to the main customer Swedish concern IKEA made about 98 % of all the sales of the Company in the year 2012 (in 2011 – 98 %, in 2010 – 98 %, in 2009 – 99 %). In 2012, the Company's sales revenue comprised sales of furniture which account for 98 % of total sales (in 2011 – 98 %) and sales of raw materials and waste of raw materials.

The Company competes with the world furniture producers.

**Political risk factors**. Critical changes in the business environment are related to the unstable economic situation in the world. This has a direct impact on the net profit and cash flows of the Company. There are no requirements and restrictions established by the State to the issuer's activity.

**Social risk factors**. The unstable situation of business in Lithuania affects the Company as well, and this results in the need for changes to be introduced in the Company's organisational structure, the need for higher labour productivity, introduction of an effective system of the purchase of raw materials and services, improvement of technological processes. In the year 2012 the wages in the Company were increased by 7 % on the average. The Company pays great attention to the improvement of operating conditions and training and qualification improvement of the employees, implementation of LEAN management principles and methods. Trade Union, representing the interests of the employees, operates actively in the Company.

**Supply**. Vilniaus Baldai AB has introduced an effective system of the purchase of raw materials and services. The Company maintains strong strategic relations with suppliers and constantly searches for new opportunities in the markets of raw materials and services. Vilniaus Baldai AB signs long-term contracts with the suppliers of the raw materials.

**Technical and technological risk factors**. The modern production equipment is introduced in the Company. The manufacturing processes should be further modernised. The physical and moral condition of the main facilities is good and does not cause any risk to the activity of the Company. Vilniaus Baldai AB focuses on maintenance of production facilities, optimisation of technological processes, and increase in labour productivity. The Company invests LTL 12.3 million in renovation of facilities and introduction of the latest technologies.

**Ecological risk factors**. There is an environment protection management system introduced in the Company, corresponding to the ISO 14001 requirements. The core of this system is the management and permanent improvement of the environment protection. The Company works purposefully seeking to make the production ecological, to control the impact that the materials and raw materials have on the environment, to ensure that the suppliers of the products and services correspond to the environment protection management requirements. Company was granted FSC production line certificate. The annual audit of quality management system and environmental management system according EN ISO 9001 and EN ISO 14001 was performed in June 2012. There aren't identified any non - conformances. In 2012 Vilniaus Baldai AB paid LTL 15 thousand of the environment pollution taxes, as well as LTL 218 thousand for the waste utilisation services. There were no manufacturing restrictions because of the environment pollution.

## 1. REVIEW OF THE COMPANIES GROUP'S POSITION, ACTIVITY AND DEVELOPMENT, CHARACTERISATION OF THE MAIN TYPES OF RISKS AND UNCERTAINTIES, FACED BY THE COMPANY (cont'd)

**Repayment of the loans**. The repayment of the loans is made according upon the contractual schedules. All the payments to the bank are made on time. Information on terms and conditions of repayment of financial liabilities, credit and interest rate risks of the Group and the Company is provided in the notes to the Consolidated and the Parent company's financial statements for the year 2012 (12 and 23 Notes).

**Characteristics of internal control and risk management systems related to the preparation of consolidated financial statement of the Company and the Group**. Invalda AB Audit committee supervises the preparation of the consolidated financial statement, internal control and risk management systems, compliance with the legal acts, which regulate the preparation of the consolidated financial statement. The Company is a public interest company that is a subsidiary of the public limited company Invalda and its financial statements are consolidated. The issue of the demand for such committee at the Company itself may be discussed in the future with regard to the situation, the financial costs and other factors and by taking advantage of the market's best practices.

The Company's Chief Accountant is responsible for the preparation of the consolidated financial statement, ensures the collection of information from Group companies, its' timely and fair processing and preparation for the financial statement.

## 2. THE ANALYSIS OF THE FINANCIAL AND NON-FINANCIAL ACTIVITY RESULTS, INFORMATION RELATED TO THE ENVIRONMENTAL AND PERSONNEL MATTERS

Indicators characterising the operation of the Group in the period of 2010 – 2012:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Net profitability = net profit / sales * 100 | 11.66% | 11.25% | 14.13% |
| Average return on assets ROA = net profit / (assets at the beginning of the period + assets at the end of the period) / 2 *100 | 25.01% | 23.86% | 29.84% |
| Return on equity ROE = net profit / equity*100 | 37.27% | 31.91% | 38.28% |
| Net earnings per share EPS = net profit / number of shares | 6.91 | 6.90 | 7.17 |
| Debt ratio = liabilities / assets | 0.27 | 0.28 | 0.33 |
| Debt to equity coefficient = liabilities / share capital | 0.37 | 0.38 | 0.49 |
| Current ratio = current assets / current liabilities | 2.43 | 2.80 | 2.48 |
| Asset's turnover = sales / assets | 2.34 | 2.05 | 1.81 |
| Book value of share = equity / number of shares | 18.53 | 21.63 | 18.73 |
| Turnover (thousand LTL) | 230,141 | 238,368 | 197,214 |
| Gross profit (thousand LTL) | 43,524 | 41,748 | 41,615 |
| Net profit (thousand LTL) | 26,835 | 26,811 | 27,857 |
| EBITDA (million LTL) | 34.8 | 36.1 | 38.2 |
| Dividends per share (for the prior accounting period) | LTL 10 | LTL 4 | - |
| Earnings per share P/E | 7.1 | 5.2 | 4.6 |
| The lowest share price | LTL 35.56 | LTL 26.93 | LTL 8.50 |
| The highest share price | LTL 51.45 | LTL 44.89 | LTL 36.00 |
| Closing price | LTL 49.03 | LTL 35.56 | LTL 32.80 |
| Capitalisation (thousand LTL ) | 190,544 | 138,196 | 127,470 |

## PRODUCTION AND SALES

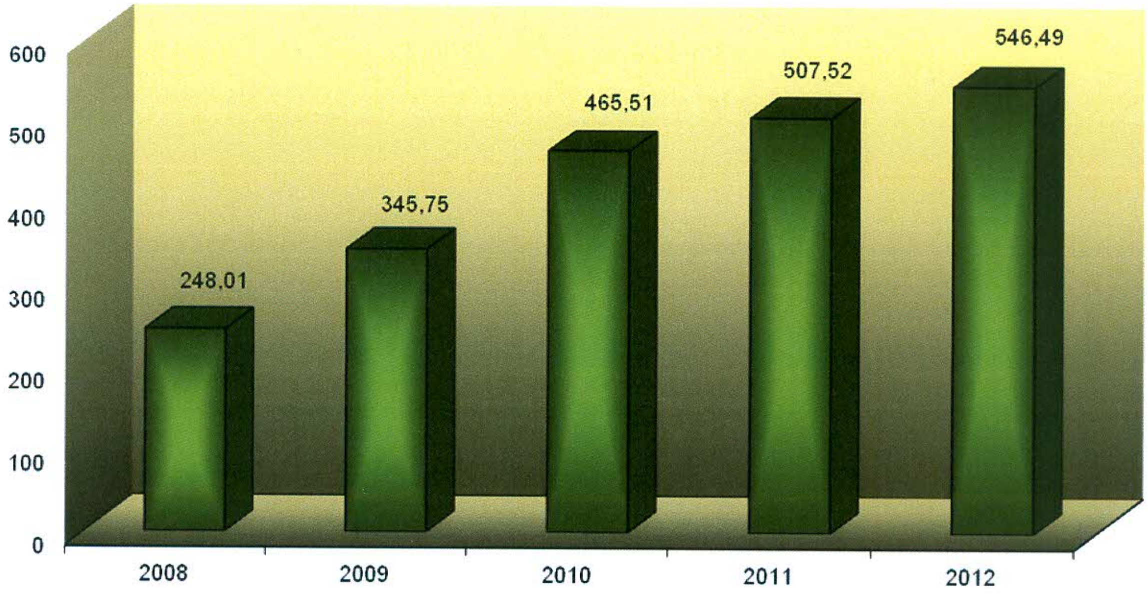
Vilniaus Baldai AB designs, produces flat-pack furniture. The production of the Company is produced from wood particle boards, the most modern technology of board on frame is used, according to which the produced furniture is lighter, however massively looking. When employing this technology less raw materials can be used, and stable quality of the production is attained. Each year new products are developed and production technologies of existing ones are improved taking into consideration the needs of consumers and prevailing tendencies. The new planning system is implemented in the Company.

Modern equipment, purchased from such world-renowned manufacturers as Holzma, Homag, Burkle, Weeke, Wikoma, Ima, Biesse, Wemhoner etc., enables to manufacture different types of the furniture, coated with planed plywood and enamel.

The volumes of Company's production in terms of value in the period of 2010 – 2012:

| Production | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | thousand LTL | % | thousand LTL | % | thousand LTL | % |
| Furniture | 231,875 | 99.37 | 224,016 | 99.19 | 192,721 | 100.00 |
| Other production | 1,475 | 0.63 | 1,832 | 0.81 | - | - |
| **Total** | **233,350** | **100.00** | **225,848** | **100.00** | **192,721** | **100.00** |

Production per employee, working on employment contract basis, 2008 – 2012 (thousand LTL / per year):



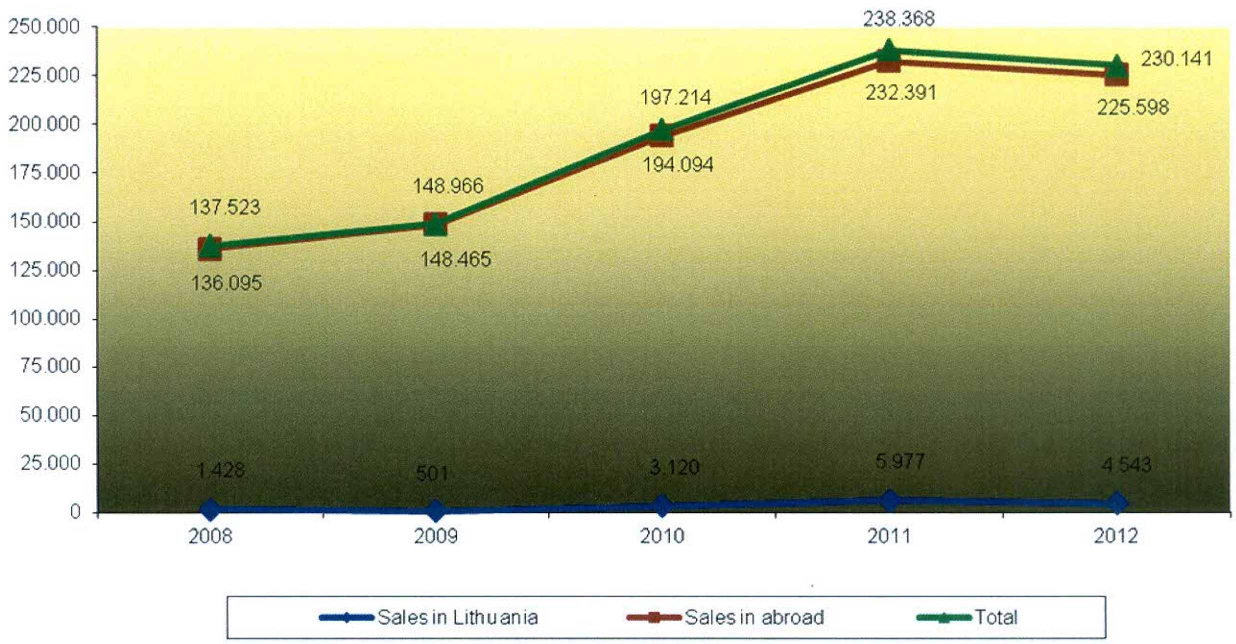
**PRODUCTION AND SALES (cont'd)**

Production sales according to the markets in the period of 2010 – 2012:

| Sales | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | thousand LTL | % | thousand LTL | % | thousand LTL | % |
| Sales in Lithuania | 4,543 | 1.97 | 5,977 | 2.51 | 3,120 | 1.58 |
| Sales in abroad | 225,598 | 98.03 | 232,391 | 97.49 | 194,094 | 98.42 |
| **Total** | **230,141** | **100.00** | **238,368** | **100.00** | **197,214** | **100.00** |

The Company's sales in Lithuania mostly comprise sales of raw materials and waste of raw materials.

Sales of the Company in the period of 2008 – 2012, in LTL thousand:




**SUPPLY**

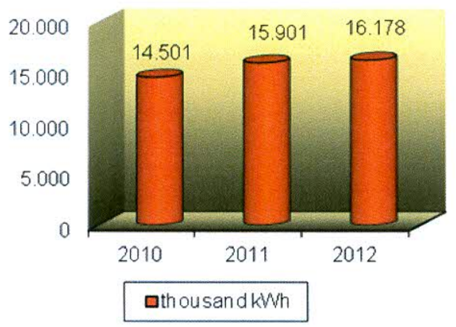
Vilniaus Baldai AB has introduced an effective system of the purchase of raw materials and services. The Company maintains strong strategic relations with suppliers and constantly searches for new opportunities in the markets of raw materials and services. The purchase process is distinguished into strategic and operational purchases. The Company aims to manage the supply risk, therefore main raw materials may be supplied by principal or alternative suppliers. The Company has implemented and continuously improves the assessment system of suppliers; audits of suppliers are carried out.

Vilniaus Baldai AB establishes the long-term contracts with the suppliers. The Company acquires the main raw materials from the local, Slovak, Polish producers. The main suppliers are Swedspan Giriu Bizonas UAB, Freda AB, Homanit Polska Sp.zo.o, Sherwin – Williams Lietuva UAB, IKEA Components S.R.O, RVG baldai UAB, Vokė III UAB, Pfleiderer Grajewo S.A., Wood service UAB. The local supply of the raw materials is pre-conditioned by the cheap transportation costs and good relations with the major suppliers.

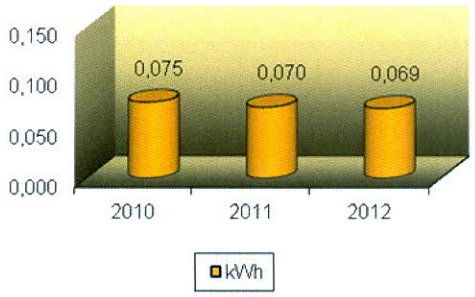
## ENERGETICS

Vilniaus Baldai AB pays a lot of attention on reduction of energy costs. During 2012 the Company consumed 16,178 thousand kWh of electricity (2011 – 15,901 thousand kWh, 2010 – 14,501 thousand kWh). The electricity consumption for production of LTL 1 amounted to 0.069 kWh (2011 – 0.07 kWh, 2010 – 0.075 kWh).

**Consumption of electricity, thousand kWh per year**



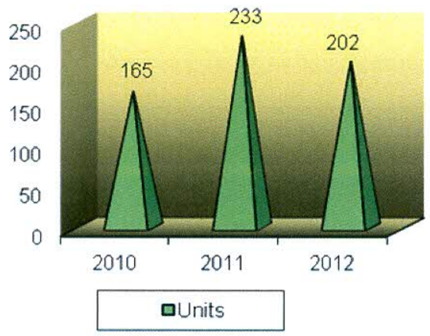

**Output per one LTL consumption of electricity, kWh**



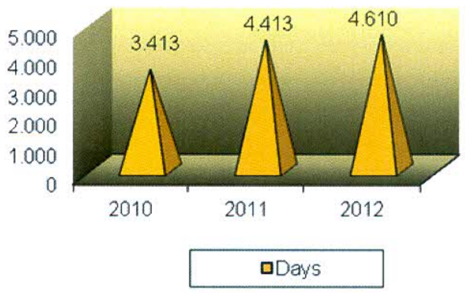

## EMPLOYEES

The Company pays great attention and allocates funds for the improvement of working conditions and trainings, qualification improvement of the personnel, implementation of LEAN principles and methods. Vilniaus Baldai AB makes regular investments in production facilities, automation of technological processes in order to improve working conditions, reduce physical workload of employees. Investments in occupational safety and wellbeing of employees serve as a basis for establishing a different working environment which encourages to aim for better performance and achieve higher competitiveness in the international markets.

**Employees of the Company the number of cases of illness, units per year**




**Employees of the Company the number of days of illness, days per year**




During 2012 the number of work places at the Group and the Company was decrease, this was caused by the increase in labour productivity. 464 employees worked in the Group and 424 employees in the Company at the end of 2012 (507 in the Group and 456 in the Company at the end of 2011). The average age of the employees is 43 years.

The average number of the recorded employees, working on an employment contract basis, in the period of 2010 – 2012:

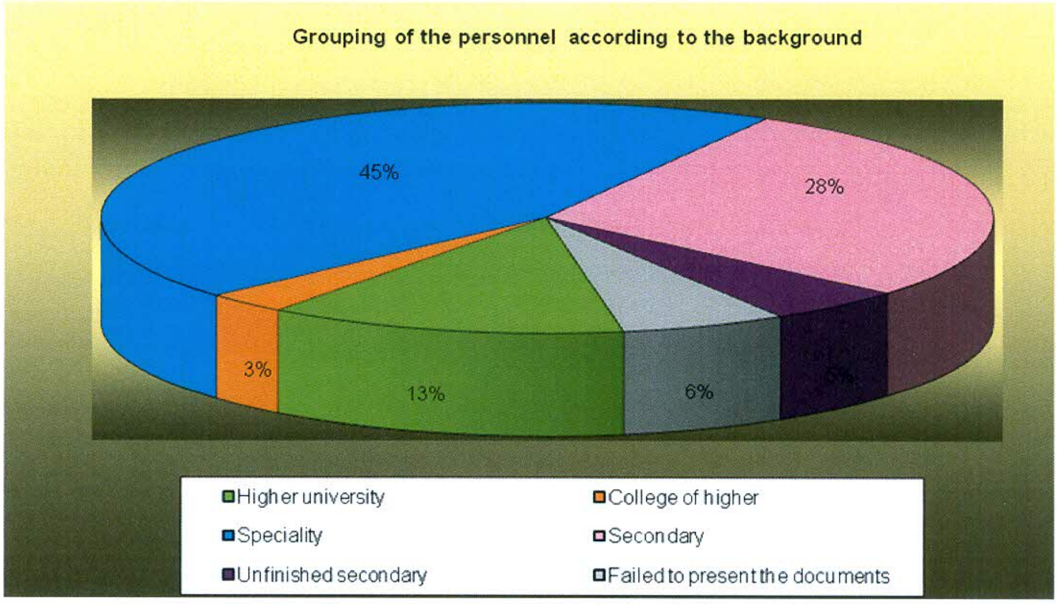
| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Executive personnel | 4 | 4 | 5 |
| Specialists | 35 | 35 | 38 |
| Workers | 388 | 406 | 371 |
| **Total** | **427** | **445** | **414** |

**EMPLOYEES (cont'd)**

The increasing production capacity of the Company and sales allow to increase wages, which increased by an average of 7% in 2012. Remuneration comprises a basic and variable component. A variable component of remuneration depends on the Company's results of operations. The Company is proud of its highly experienced and qualified employees.

The average wages of the employees in the period of 2010 – 2012, LTL:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Executive personnel | 19,766 | 18,756 | 16,184 |
| Specialists | 4,971 | 4,422 | 4,101 |
| Workers | 2,964 | 2,757 | 2,637 |
| **Total** | **3,283** | **3,063** | **2,924** |




The collective agreement is concluded in the Company. The collective agreement was renewed on 23 November 2011. The agreement is mandatory for all the employees of the Company. The purpose of this agreement is to ensure the harmonious work of the staff, high level of working conditions of different categories of employees, salary and other working conditions also to ensure additional social guarantees which are not stated according to the regulations of Lithuanian legislations for the employees of the Company. The collective agreement includes the working contract formation, change, termination, work and rest time, payment for work done, improvement of the qualification of the employees, safety at work and medical assistance, social care, trade - union activity and guarantees of the elected employees.

## 3. REFERENCES AND ADDITIONAL EXPLANATIONS ABOUT THE INFORMATION PRESENTED IN THE ANNUAL FINANCIAL STATEMENTS

The information presented in the annual financial statements and the explanatory notes.

## 4. INFORMATION ABOUT THE OWN SHARES

The Company did not have any own shares, did not acquire or transfer any in the reporting period.

During the ordinary general meeting of shareholders held on 29 April 2010 a decision was passed to make a transfer of LTL 25,000 thousand from the Company's retained earnings to the reserve for the acquisition of own shares. The matter on the acquisition of own shares will be deliberated by the shareholders in the future considering the Company's results of operations and the market situation.

## 5. INFORMATION ABOUT THE BRANCHES AND REPRESENTATIVE OFFICES OF THE COMPANY

The Company does not have any branches or representative offices.

## 6. IMPORTANT EVENTS, WHICH HAVE OCCURED AFTER FINANCIAL YEAR END

There were no significant events at the Company subsequent to the end of the reporting period prior to the approval of the consolidated annual report.

## 7. OPERATING PLANS AND FORECASTS OF THE GROUP'S ACTIVITY

In 2013, the Company intends to change approximately 50 per cent of product portfolio. Starting with 1st quarter of 2013, it will cease production of „Expedit" product group, which so far has been the major product group, still production of „Flaxa" children's furniture will be launched, as well as other new production. Due to the abovementioned changes, new installations will be erected at the Company and advanced technologies implemented. These reforms will cause changes in working time schedule and workplace organization. In the 2nd and 3rd quarters of 2013, the Company will focus production operations at the main factory through increase in work shift number. Vilniaus Baldai AB intends to start operation in usual operating conditions from September 2013. Due to the abovementioned changes in 2013, the Company does not predict that sales 2012 will be achieved, still expects to be profitable and preserve all jobs.

## 8. INFORMATION ABOUT THE RESEARCH AND DEVELOPMENT ACTIVITY OF THE COMPANY

The Company did not carry out any research or development activity. The Company used the results of the customers' research.

## 9. WHEN THE GROUP EMPLOYS THE FINANCIAL INSTRUMENTS AND WHEN IT IS IMPORTANT FOR VALUATION OF THE COMPANY'S ASSETS, EQUITY, LIABILITIES, FINANCIAL POSITION AND ACTIVITY RESULTS OF THE COMPANY, THE COMPANY DISCLOSES THE OBJECTIVES OF THE FINANCIAL RISK MANAGEMENT, ITS POLICY FOR HEDGING MAJOR TYPES OF FORECASTED TRANSACTIONS FOR WHICH HEDGE ACCOUNTING IS USED, AND COMPANY'S EXPOSURE TO PRICE RISK, CREDIT RISK, LIQUIDITY RISK AND CASH FLOW RISK

The Group did not use any financial instruments, which are important to the evaluation of the Group's assets, liabilities and operation results.

## 10. INFORMATION ON THE CONTRACTS WITH THE INTERMEDIARIES OF THE PUBLIC TURNOVER OF THE SECURITIES

The Company has signed the contract with the FMI Finasta AB (Maironio Str. 11, Vilnius) on the management of the Company's securities accounting and the payment of dividends to the shareholders.

## 11. STRUCTURE OF THE ISSUER'S AUTHORISED CAPITAL

Structure of the authorized capital of Vilniaus Baldai AB:

| Type of shares | Number of shares, units | Nominal value, LTL | Total nominal value, LTL | Share in the authorised capital, % |
|---|---|---|---|---|
| Ordinary registered shares | 3,886,267 | 4 | 15,545,068 | 100.00 |

The Company's authorised share capital is divided into 3,886,267 ordinary registered shares with par value of LTL 4 each. The shares are intangible. They are recorded in personal securities accounts of shareholders. These accounts are managed following the procedure established by regulatory legislation on the securities market.

### Rights and obligations carried by the shares

The shareholders have no property obligations to the Company, except for the obligation to pay up, in the established manner, all the shares subscribed for at their issue price.

If the General Meeting takes a decision to cover the losses of the Company from additional contributions made by the shareholders, the shareholders who voted "for" shall be obligated to pay the contributions. The shareholders who did not attend the General Meeting or voted against such a resolution shall have the right to refrain from paying additional contributions.

A shareholder shall repay to the Company any dividend paid out in violation of the mandatory norms of the Law on Stock Companies of the Republic of Lithuania, if the Company proves that the shareholder knew or should have known thereof.

## 11. STRUCTURE OF THE ISSUER'S AUTHORISED CAPITAL (cont'd)

### Rights and obligations carried by the shares

The shareholders have the following property and moral rights:

1. to receive a part of Company's profit (dividend);
2. to receive Company's funds when the authorized capital of the Company is decreased in order to pay the Company's funds to the shareholders;
3. to receive shares without payment if the authorized capital is increased out of the Company's funds except in cases provided for by the laws of the Republic of Lithuania;
4. to have the pre-emption right in acquiring shares or convertible debentures issued by the Company, except in cases when the General Meeting in the manner prescribed in the Law on Companies of the Republic of Lithuania decides to withdraw the pre-emption right in acquiring the Company's newly issued shares or convertible debentures for all the shareholders;
5. to lend the Company in the manner prescribed by laws, but the Company, borrowing from its shareholders has no right to mortgage its property to shareholders. The interest shall not exceed the average interest rate of commercial banks in the lender's place of residence or business in force at the time of the loan contract when the Company is borrowing from the shareholder. In this case it is prohibited to the Company and its shareholders to agree on a higher interest rate;
6. to receive a part of assets of the Company in liquidation;
7. other statutory property rights;
8. the rights, indicated in statutes 1 - 4 have persons who were Company's shareholders at the tenth day after the decision that was accepted at the end of general shareholders' meeting (hereinafter – at the end of right record day);
9. to participate in general shareholders' meetings;
10. to submit the questions related to the agenda of general shareholders' meetings to the Company in advance;
11. to vote at general shareholders' meetings according to voting rights carried by their shares. Each registered ordinary share carries one vote at the general shareholders' meeting except the exceptions indicated in the Company Law of the Republic of Lithuania. The right to vote at the general shareholders' meetings may be prohibited or restricted by the Company Law of the Republic of Lithuania and other cases established by law, as well as, when the ownership of the share is being disputed;
12. to receive information on the Company as indicated in the Company Law of the Republic of Lithuania;
13. to file a claim with the court for reparation of Company's damage resulting from nonfeasance or malfeasance by the Company's executive and board members of their obligations prescribed by the Company Law of the Republic of Lithuania and other laws as well as Company's regulations;
14. to authorize natural or legal person to represent him in relations with the Company and other persons;
15. other non-property rights established by the Company Law of the Republic of Lithuania or Company's regulations.

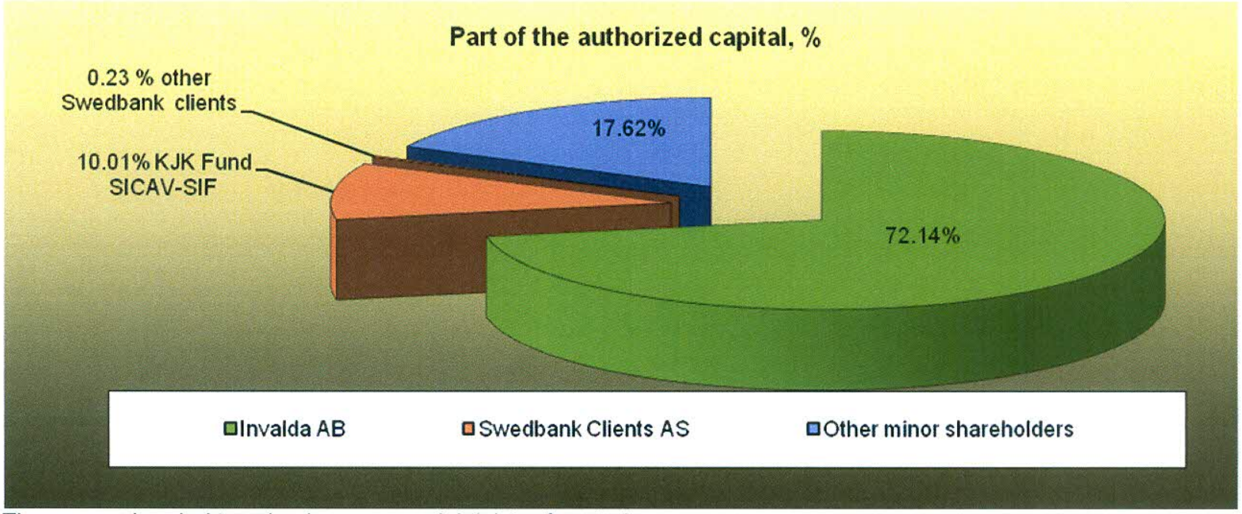
## 12. SHAREHOLDERS

Total number of the shareholders as of 31 December 2012 is 1,267.

The shareholders who had upon the property rights or possessed more than 5 % of the issuer's authorised capital on 31 December 2012:

| Names of the companies, office addresses, codes | Number of shares owned under the property rights, units | Part of the authorised capital, % | Part of the votes, % |
|---|---|---|---|
| Invalda AB, company code 121304349, Seimyniskiu Str. 1 A, Vilnius | 2,803,395 | 72.14 | 72.14 |
| Swedbank Clients, company code 10060701 Liivalaia 8, 15040 Tallinn, Estonia | 398,030 | 10.24 | 10.24 |
| - of which KJK Fund SICAV-SIF | 389,161 | 10.01 | 10.01 |

## 12. SHAREHOLDERS (cont'd)




The are no shareholders, having any special rights of control.

There are no voting rights restrictions.

The issuer is not aware of any agreements between the shareholders, because of which the transfer of the securities and (or) the voting right could be limited.

## 13. INFORMATION ABOUT THE ISSUER'S STOCK EXCHANGE TRADING ON THE REGULATED MARKETS

The Company's ordinary registered shares are on the Official list of the Nasdaq OMX Vilnius AB.

The main characteristics of shares:

| Type of shares | VP ISIN code | Abbreviation | Number of shares, units. | Nominal value, LTL | Total nominal value, LTL |
|---|---|---|---|---|---|
| Ordinary registered shares | LT0000104267 | VBL1L | 3,886,267 | 4 | 15,545,068 |

The trade of the shares of the Company:

| | 2012 | 2011 |
|---|---|---|
| Price of the shares, LTL: | | |
| - opening | 35.56 | 32.46 |
| - highest | 51.45 | 44.89 |
| - lowest | 35.56 | 26.93 |
| - closing | 49.03 | 35.56 |
| - average | 45.01 | 34.94 |
| Turnover of shares, units | 81,859 | 113,526 |
| Turnover of shares, LTL | 3,684,369 | 3,966,193 |
| Total number of transactions, units | 1,154 | 1,251 |
| Capitalization, million LTL | 190.54 | 138.20 |

### 13. INFORMATION ABOUT THE ISSUER'S STOCK EXCHANGE TRADING ON THE REGULATED MARKETS (cont'd)

Shares turnover and price of Vilniaus Baldai AB in the period of 2002 – 2012:


Comparison of the price of shares of Vilniaus Baldai AB with the OMXBB index in the period of 2010 – 2012:

## Baltic market indexes


| Index/Equity | 01.01.2010 | 31.12.2012 | +/-% |
|---|---|---|---|
| OMX Baltic Benchmark GI | 314.42 | 546.98 | 73.96 |
| OMX Vilnius | 261.77 | 355.08 | 35.65 |
| VBL1L | 2.61 EUR | 14.20 EUR | 444.78 |

### 14. ORDER OF CHANGING OF THE ISSUER'S ARTICLES OF ASSOCIATION

The Articles of Company are changed by the resolution of the General Meeting of shareholders, adopted by the majority of more than 2/3 of all the votes.

## 15. ISSUER'S BODIES

The Company has the General Meeting of shareholders, a one-man management body – chief executive officer (General Director) and the collegial management body – the Board. The Company does not have Supervisory Board.

The Board of the Company consists of 3 members. It is elected for the period of four years by the General Meeting. The Board of the Company elects and withdraws and dismisses from the position the Chief Executive Officer, determines his salary, confirms the job descriptions, appoints him and imposes penalties.

The Board and Administration of the Company:

**Mr. Vytautas Bucas**

**Position**

Chairman of the Board, elected to the Board on 12.04.2007, re-elected on 29.04.2008 and 27.04.2012, end of the term – 2016

**Work experience**

Since 2006 Adviser of Invalda AB, Board member (since May 2007 Chairman of the Board)
2006 – 2007 Director of Invaldos Nekilnojamojo Tutro Fondas AB
2000 – 2006 SEB Bankas AB, Board member, Vice President, CFO, Head of IT Department
1992 – 2000 Senior Auditor, Senior Manager, Manager at Arthur Andersen

| Participation in the activities of other companies | Number of shares and of voting rights |
|---|---|
| Chairman of the Board of Invalda AB | 15.83 % of shares and of voting rights; together with related parties 24.04 % of voting rights |
| Chairman of the Board of Invaldos Nekilnojamojo Turto Fondas AB | - |
| Board member of Inreal Pastatu Prieziura UAB | - |
| Board member of Invalda Lux S.a.r.l. | - |
| Chairman of the Board of BAIP Grupe UAB | - |
| Board member of Litagra UAB | - |

**Mr. Darius Sulnis**

**Position**

Board member, elected to the Board on 12.04.2007, re-elected on 29.04.2008 and 27.04.2012, end of the term – 2016

**Work experience**

Since January 2012 – Board member of Invalda AB
2006 – 2012 President and Board member of Invalda AB
2002 – 2006 Director of Invalda Nekilnojamojo Turto Valdymas UAB
1994 – 2002 Director of FMI Finasta AB

| Participation in the activities of other companies | Number of shares and of voting rights |
|---|---|
| Board member of Invalda AB | 7.69 % of shares and of voting rights; together with related parties 24.04 % of voting rights |
| Board member of Invaldos Nekilnojamojo Turto Fondas AB | - |
| Board member of Litagra UAB | - |
| Chairman of the Supervisory Board at Dommo SIA (Latvia) | - |
| Chairman of the Supervisory Board at Burusala SIA (Latvia) | - |
| Lucrum investicija UAB | 100 % (all voting rights are disposed) |
| Golfas UAB | 31 % |
| **Participation in Vilniaus Baldai AB authorised capital** | **0.28 %** |

**15. ISSUER'S BODIES (cont'd)**

The Board and Administration of the Company (cont'd)

| **Mr. Dalius Kaziunas** | |
|---|---|
| **Position**<br><br>Board member, elected to the Board on 29.04.2010, re-elected on 27.04.2012 end of the term – 2016 | |
| **Work experience**<br><br>Since January 2012 – President of Invalda AB, Board member (till April 2012)<br>2008 – 2011 Adviser and Board member of Invalda AB<br>2008 – 2009 Director of Bankas Finasta AB<br>1996 – February 2008 assistant of financial broker of FMI Finasta AB, financial broker, Director. | |
| **Participation in the activities of other companies** | **Number of shares and of voting rights** |
| President and Board member of Invalda AB | 0.52 % of shares and of voting rights; together with related parties 24.04 % of voting rights |
| Board member of Ineturas UAB | - |
| Board member of Inreal pastatu prieziura UAB | - |
| Board member of Kelio Zenklai UAB | - |
| Board member of BAIP Grupe UAB | - |
| Board member of Invetex UAB | - |
| Board member of Invalda Lux S.a.r.l. | - |
| Board member Jurita UAB | - |
| Chairman of the Board of Lauko gelininkystes bandymu stotis | - |
| Member of the Supervisory Board at Vernitas AB | - |
| Board member of Litagra UAB | - |

| **Mr. Aidas Mackevicius** | |
|---|---|
| **Position**<br><br>General director since 01.07.2010 | |
| **Work experience**<br><br>2008 – 2009 General director of AG group UAB<br>2004 – 2008 General director of Palink UAB<br>1999 – 2004 Finance director Palink UAB | |
| **Participation in the activities of other companies** | **Number of shares and of voting rights** |
| - | - |

| **Mrs. Ausra Kibirkstiene** | |
|---|---|
| **Position**<br><br>Chief accountant since 18.08.2008 | |
| **Work experience**<br><br>2001 – 2008 m. Manager of accounting system Navision of Litesko UAB<br>2005 – 2008 m. Chief accountant of Druskininku dujos UAB<br>1996 – 2001 m. Accountant of Bite Lietuva UAB | |
| **Participation in the activities of other companies** | **Number of shares and of voting rights** |
| - | - |

## 15. ISSUER'S BODIES (cont'd)

The Board and Administration of the Company (cont'd)

The Company's key management personnel includes the Company's General Director and Chief Accountant. In 2012 the average monthly remuneration to the management member of the Company amounted to LTL 34.67 thousand (2011 – LTL 30.63 thousand). The remuneration is not paid to the Board members of the Company. In 2012 the Company paid to the Board members LTL 3,000 thousand annual payments (bonus) (2011 – LTL 795 thousand).

Remuneration to the management member of the Company:

| | 2012 | 2011 |
|---|---|---|
| Wages, salaries | 635 | 561 |
| Social security | 197 | 174 |
| **Total** | **832** | **735** |

During the 2012 the Company did not transfer any assets to the Board members, Head of the Company, Chief accountant as well as any guarantees or warranties, by which the performance of their liabilities would be secured.

## 16. SIGNIFICANT AGREEMENTS IN WHICH THE COMPANY IS INVOLVED AND WHICH WOULD BECOME EFFECTIVE, WOULD CHANGE OR WOULD BE TERMINATED IF THE CONTROL OF ISSUER WILL CHANGE

During the 2012 no material agreements were signed which would become effective, would change or would be terminated if the control of issuer will change. Furthermore, there were no agreements signed during the 2012 between the Company and its body, employees which allow compensations if they would resign or would be fired without the justified reason or their work would be finished due to the issuer control change.

## 17. RELATED PARTY TRANSACTIONS

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Company during 2012 and 2011 were: Invalda AB (ultimate shareholder) and all companies controlled by Invalda AB. Transactions with related parties during 2012 and 2011 and the balances as of 31 December 2012 and 2011 is provided in the notes (Note 25) to Consolidated and Parent Company's financial statements for the year ended 31 December 2012.

## 18. DATA ON THE PUBLICLY DISCLOSED INFORMATION

The information publicly disclosed by Vilniaus Baldai AB during 2012 is presented in the Company's website www.vilniausbaldai.lt.

Summary of publicly disclosed information during 2012:

| Date of disclosure | Brief description of disclosed information |
|---|---|
| 04.01.2012 | Vilniaus baldai AB investor's calendar for year 2012 |
| 08.02.2012 | Non audited interim condensed consolidated financial statement for the twelve months of 2011 |
| 08.02.2012 | Sales and result for activity during period of January – December 2011 |
| 30.03.2012 | Annual audited information for the year 2011 |
| 05.04.2012 | Convocation of Vilniaus baldai AB Ordinary General Shareholders Meeting |
| 05.04.2012 | Draft resolutions of the Annual General Shareholders Meeting |
| 23.04.2012 | Non audited condensed interim consolidated financial statement for the three months of 2012 |
| 23.04.2012 | Sales and result for activity during period of January – March 2012 |
| 27.04.2012 | Resolutions of the Annual General Shareholders Meeting of Vilniaus baldai AB on 27.04.2012 |
| 27.04.2012 | Annual information for the year 2011 |
| 08.05.2012 | Procedure for the payout of dividends for the year 2011 |
| 08.08.2012 | Non audited interim condensed consolidated financial statement for the six months of 2012 |
| 08.08.2012 | Sales and result for activity during period of January – June 2012 |

## 18. DATA ON THE PUBLICLY DISCLOSED INFORMATION (cont'd)

Summary of publicly disclosed information during 2012 (cont'd):

| | |
|---|---|
| 27.09.2012 | Convocation of Vilniaus baldai AB Extraordinary General Shareholders Meeting |
| 27.09.2012 | Draft resolution of the Extraordinary General Shareholders Meeting |
| 23.10.2012 | Non audited interim condensed consolidated financial statement for the nine months of 2012 |
| 23.10.2012 | Sales and result for activity during period of January – September 2012 |
| 24.10.2012 | Resolution of the Extraordinary General Shareholders Meeting |

General Director Aidas Mackevicius

**Vilniaus Baldai AB disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market**

Following the Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and the paragraph 24.5. of the Listing Rules of the NASDAQ OMX Vilnius AB, Vilniaus Baldai AB discloses its compliance with the Governance Code, approved by the NASDAQ OMX Vilnius for the companies listed on the regulated market, and its specific provisions.

| PRINCIPLES/ RECOMMENDATIONS | YES/ NO/ NOT APP-LICAB-LE | COMMENTARY |
|---|---|---|
| **Principle I: Basic Provisions**<br><br>**The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.** | | |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | Yes | In 2013, the Company intends to change approximately 50 per cent of product portfolio. Starting with 1st quarter of 2013, it will cease production of „Expedit" product group, which so far has been the major product group, still production of „Flaxa" children's furniture will be launched, as well as other new production. Due to the abovementioned changes, new installations will be erected at the Company and advanced technologies implemented. These reforms will cause changes in working time schedule and workplace organization. In the 2nd and 3rd quarters of 2013, the Company will focus production operations at the main factory through increase in work shift number. Vilniaus baldai AB intends to start operation in usual operating conditions from September 2013. Due to the abovementioned changes in 2013, the Company does not predict that sales 2012 will be achieved, still expects to be profitable and preserve all jobs. |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes | The activity of the Company's management bodies is concentrated on the implementation of the main goals and tasks. |
| 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 | The Board of the Company adopts the decisions on all the most important matters. The ordinary meetings of the Board of the Company are held at least once in a month. Extraordinary – upon the suggestion of Chairman of the Board or Board member for the discussion and decision making of the important matters. The Board of the Company cooperates with the Chief Executive Officer. |
| 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 respects the rights and the interests of all main concerned groups. |

| **Principle II: The corporate governance framework**<br><br>**The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.** | | |
|---|---|---|
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | No | Management bodies of the Company are General Meeting, Board and Chief Executive Officer.<br>The Company does not have a supervisory board. Control of the Board of the Company is performed by General Meeting, the Board reports to the General Meeting of Shareholders. |
| 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 has a collegial management body – the Board. |
| 2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. | No | The Company does not follow this recommendation. It has just one collegial body – the Board. |
| 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 | The Company follows the majority of the provisions defined in Principle III. It does not follow the provisions defined in Principle IV on the establishment of committees. |
| 2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. | Yes | The Board of the Company consists of 3 members. All the 3 members represent the interests of the shareholders' and aim for the benefit of the Company. |
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board. | No | Members of the Supervisory Board and the directors' consultants are not appointed by the Company. |
| 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. | Yes | Chief Executive Officer of the Company is not a Board member. Chairman of the Board of the Company is not and was not the chief executive officer of the Company. There is no obstacles in independent and fair supervision. |

| **Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting**<br><br>**The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.** | | |
|---|---|---|
| 3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. | Yes | The Board formation mechanism allows to ensure proper monitoring of the Company. Only a person, having the proper qualification can become a Board member. The Board of the Company consists of the members not working at the Company. |
| 3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. | Yes | Information about current Board members is presented in the Company's periodic reports. |
| 3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body. | Yes | The information on the composition of the Board is published in the annual report. |
| 3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. | Yes | Members of the Company's Board have significant experience in Companies' management, diversity of knowledge and experience to complete their tasks properly. |
| 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. | Yes | Members of the Company's Board have significant experience in companies' management. The Company's Board members are acquainted with Company's organisation, its activity and management specifics. |
| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members. | No | The independence of the elected Board members was not evaluated in the Company as well as the content of the notion of the sufficiency of independent members. |

| | | |
|---|---|---|
| 3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:<br><br>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;<br><br>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;<br><br>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); | No | At the General Meeting of the shareholders the persons were elected to the members of the Board, who are independent and acting with an aim for the benefit of the Company, however they do not correspond to the recommendation on independence of this code. |

| | | |
|---|---|---|
| 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);<br><br>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group;<br><br>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;<br><br>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;<br><br>8) He/she has not been in the position of a member of the collegial body for over than 12 years;<br><br>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.<br><br>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. | | |
| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | No | The Company did not use Board members' independence evaluation and disclosure practice. |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | No | The Company did not use Board members' independence evaluation and disclosure practice. |
| 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. | Yes | On 27 April 2012 the Annual General Meeting decided to pay LTL 3,000 thousand annual payments (bonus) for the Board members. |

| | | |
|---|---|---|
| **Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting**<br><br>**The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.** | | |
| 4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. | Yes | The Chief Executive Officer of the Company at least once in a month reports to the company's Board and receives its recommendations. The Board of the Company confirms the annual report prepared by the Chief Executive Officer. |
| 4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | Yes | Members of the Company's Board act in good faith for the benefit and in the interests of the Company. They try to maintain own independence in making decisions. |
| 4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified. | Yes | Board members perform their functions properly: actively participate in the Board meetings and devote sufficient time and attention to perform their duties. Board meetings are attended by all members. |
| 4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders. | Yes | The Company follows this recommendation. |
| 4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision. | Yes | The transactions between the Company and its shareholders, Supervisory Board or management bodies or other bodies that may have influence on management of the Company are confirmed according to the Articles of the Association of the Company. |

| | | |
|---|---|---|
| 4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. | Yes | The Company's Board has financial resources and does not depend on the Company's management. |
| 4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole. | No | Due to the simple structure of the Company the nomination and remuneration committees are not carried out.<br>Question regarding establishment of nomination and remuneration committees will be solved in future after analyzing situation, evaluating financial expenses and other factors, implementing best practices in the market.<br>The Company is a public interest company that is a subsidiary of the public limited company Invalda, which forms the Audit Committee, and its financial statements are consolidated. Given these circumstances and following Paragraph 6 Article 52 of the Law on Audit of the Republic of Lithuania, the Company does not form an Audit Committee. The issue of the demand for such committee at the Company itself may be discussed in the future with regard to the situation, the financial costs and other factors and by taking advantage of the market's best practices. |
| 4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence. | No | The Committees of Nomination and Remuneration are not established. The Committee of Audit is established in Invalda AB which is the public interest parent company and the financial statements of the Company are consolidated. |
| 4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. | No | The Committees of Nomination and Remuneration are not established because of the structural simplicity of the Company's management.<br>The Audit Committee of Invalda AB consists of 2 members, one of them is independent. |

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| 4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion. | No | The Committees of Nomination and Remuneration are not established because of the structural simplicity of the Company's management. |
| 4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities. | No | The Committees of Nomination and Remuneration are not established because of the structural simplicity of the Company's management. |
| 4.12. Nomination Committee.<br>4.12.1. Key functions of the nomination committee should be the following:<br><br>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;<br>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;<br>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;<br>• Properly consider issues related to succession planning;<br>• Review the policy of the management bodies for selection and appointment of senior management.<br><br>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee. | No | The Committees of Nomination and Remuneration are not established because of the structural simplicity of the Company's management. |

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| 4.13. Remuneration Committee.<br>4.13.1. Key functions of the remuneration committee should be the following:<br>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;<br>• Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);<br>• 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.<br>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:<br>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;<br>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;<br>• 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.<br>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. | No | The Committees of Nomination and Remuneration are not established because of the structural simplicity of the Company's management. |

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| 4.14. Audit Committee.<br><br>4.14.1. Key functions of the audit committee should be the following:<br>• Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);<br>• At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;<br>• Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;<br>• Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;<br>• 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;<br>• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. | No | Invalda AB Audit committee supervises the preparation of the consolidated financial statement, internal control and risk management systems, compliance with the legal acts, which regulate the preparation of the consolidated financial statement. The Company is a public interest company that is a subsidiary of the public limited company Invalda and its financial statements are consolidated.<br><br>The main functions of the Audit Committee of Invalda AB are:<br><br>1. to advice for the Board of Invalda AB about the reliability, assignment, repeated assignment and dismissal of the external audit company and about the conditions of the agreement with external audit company;<br><br>2. to observe the process of external audit;<br><br>3. to observe if external audit company and its auditors keep the principles of independency and objectivity;<br><br>4. to observe the process of preparation of financial statements;<br><br>5. to observe the efficiency of internal control and risk management systems and to evaluate the need of internal audit functions once per financial year. |

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| 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.<br><br>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.<br><br>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.<br><br>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.<br><br>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.<br><br>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. | | |
| 4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. | No | There was no such practice. |

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| **Principle V: The working procedure of the company's collegial bodies**<br><br>**The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.** | | |
| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting. | Yes | This provision is adopted in the Company by collegial management – the Board. |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month. | Yes | Meetings of the Company's Board are arranged at least once in a month. |
| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution. | Yes | The Company follows provisions listed in this recommendation. |
| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed. | No | The Company cannot implement this principle, because Company has just collegial management – the Board. |
| **Principle VI: The equitable treatment of shareholders and shareholder rights**<br><br>**The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.** | | |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | Yes | The Company's capital consists only of the ordinary shares that grant the same rights to all their holders. |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company follows provisions listed in this 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. | No | The Company does not follow this provision because of the developed routine practice, which was resulted by the quicker and timely decision-making process. The Company's Board adopts the decisions on these matters. |

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| 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 | All the shareholders of the Company are informed about date, venue and time of the General Meeting. Prior to the General Meeting of Shareholders all the shareholders have possibility to receive information, related to the agenda of General Meeting. |
| 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 referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes | The Company discloses the documents prepared for the General Meeting, including the drafts of the resolutions of the meetings via the information disclosure system of AB NASDAQ OMX Vilnius Stock Exchange. The information is e-mailed to each shareholder, requesting it. This information is not publicly accessible on the website of the Company. |
| 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 | Shareholders of the Company can implement the right to participate at the General Meeting of Shareholders either in person, or through the representative, if a person has the duly issued Power of Attorney. The Company also provides the possibilities for the shareholders to vote by completing the general voting ballot. |
| 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. | Not applicable | Up till now the Company has not had any need to implement this recommendation. Shareholders of the Company can vote through the authorized person or completing the general voting ballot. |
| **Principle VII: The avoidance of conflicts of interest and their disclosure**<br><br>**The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.** | | |
| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes | The Company follows provisions listed in this 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 | |

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| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | Yes | The Company follows provisions listed in this recommendation. |
| 7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on. | Yes | The Company's Board members are acquainted with these principles and must follow these recommendations. |
| **Principle VIII: Company's remuneration policy**<br><br>**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.** | | |
| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website. | No | The Company does not establish a statement of the remuneration policy. There is no confirmed remuneration policy in the Company.<br>The Company publishes in the annual information the amount of the remuneration of chief management and the averages of the remuneration of the Company's administration and workers. The above mentioned information is presented in compliance with the practice common in the Company and the Republic of Lithuania. |
| 8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year. | No | The Company's remuneration policy is not confirmed at the Company. The Company does not establish the remuneration statement, because the majority of the points of Principle VIII are not relevant to the present structure of the Company. |
| 8.3. Remuneration statement should leastwise include the following information:<br>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;<br>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;<br>• Sufficient information on the linkage between the remuneration and performance;<br>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;<br>• A description of the main characteristics of supplementary pension or early retirement schemes for directors. | No | The Company's remuneration policy is not confirmed at the Company. The Company does not establish the remuneration statement, because the majority of the points of Principle VIII are not relevant to the present structure of the Company. |
| 8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies. | No | The Company's remuneration policy is not confirmed at the Company. The Company does not prepare the remuneration statement, because the majority of the points of Principle VIII are not relevant to the present structure of the Company. |

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| 8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. | No | The Company's remuneration policy is not confirmed at the Company. The Company does not prepare the remuneration statement, because the majority of the points of Principle VIII are not relevant to the present structure of the Company. |
| 8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory. | No | The Company's remuneration policy is not confirmed at the Company. The company does not prepare the remuneration statement, because the majority of the points of Principle VIII are not relevant to the present structure of the Company. |
| 8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.<br>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:<br>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;<br>• The remuneration and advantages received from any undertaking belonging to the same group;<br>• The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;<br>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;<br>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;<br>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.<br>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:<br>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;<br>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;<br>• The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;<br>• All changes in the terms and conditions of existing share options occurring during the financial year.<br>8.7.3. The following supplementary pension schemes-related information should be disclosed:<br>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;<br>• 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. | No | The Company's remuneration policy is not confirmed at the Company. The Company does not prepare the remuneration statement, because the majority of the points of Principle VIII are not relevant to the present structure of the Company. |

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| 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. | | The Company's remuneration policy is not confirmed at the Company. The Company does not prepare the remuneration statement, because the majority of the points of Principle VIII are not relevant to the present structure of the Company. |
| 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. | Not appli-cable | 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 are not used in the Company. |
| 8.9. The following issues should be subject to approval by the shareholders' annual general meeting:<br>• Grant of share-based schemes, including share options, to directors;<br>• Determination of maximum number of shares and main conditions of share granting;<br>• The term within which options can be exercised;<br>• The conditions for any subsequent change in the exercise of the options, if permissible by law;<br>• All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. | | |
| 8.10. 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. | | |
| 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. | | |

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| 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. | Not appli-cable | 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 are not used in the Company. |
| **Principle IX: The role of stakeholders in corporate governance**<br><br>**The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept *"stakeholders"* includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.** | | |
| 9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. | Yes | The Company follows all the requirements provided by the laws, ensuring the rights of stakeholders. The Company's employees make an influence on the Company's management through the Trade Union; the relationships with the creditors, suppliers and clients are stipulated in the contracts established with them. |
| 9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. | | |
| 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | | |

**Principle X: Information disclosure and transparency**

**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.**

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| 10.1. The company should disclose information on:<br>• The financial and operating results of the company;<br>• Company objectives;<br>• Persons holding by the right of ownership or in control of a block of shares in the company;<br>• Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;<br>• Material foreseeable risk factors;<br>• Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br>• Material issues regarding employees and other stakeholders;<br>• Governance structures and strategy.<br><br>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.<br><br>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.<br><br>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.<br><br>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure. | Yes | The information about the Company, indicated in these recommendations, is disclosed only in the following sources: in the annual report of the Company, financial statements, reports on the purchase/loss of blocks of shares, the reports on the essential events, announcing this information in the information disclosure system of NASDAQ OMX Vilnius AB Stock Exchange and on the Company's website too. |
| 10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions. | Yes | The information on the information disclosure of NASDAQ OMX Vilnius AB Stock Exchange is presented in the Lithuanian and English languages simultaneously. The Stock Exchange announces the received information on its website and in the trading system, in this way ensuring the simultaneous presentation of the information to everybody. The Company strives to announce the information before or after a trading session of Stock Exchange. The Company does not disclose the information, which might have impact on the value of its shares, in any comments, interviews or other ways till such information is announced officially through the information system of the Stock Exchange. |

| | | |
|---|---|---|
| 10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well. | Yes | The company sends the reports simultaneously to the Commission of Stock Exchange and NASDAQ OMX Vilnius AB Stock Exchange. In this way the independent and timely accessibility of the information is ensured.<br>The information on the major events is presented in the Lithuanian and English languages. |
| 10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too. | Yes | The Company announces on its website annual financial information and other periodic reports prepared by the Company, announcements about material events and changes of the Company's share prices on the Stock Exchange. |
| **Principle XI: The selection of the company's auditor**<br><br>**The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.** | | |
| 11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | No | The independent firm of auditors conducts the audit of the annual financial statements and reviews the annual report that there would be no any material inconsistencies between the financial information included in it and the audited Financial statements. The audit of the interim financial statement is not conducted. |
| 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. | Yes | Company follows this principle. A candidate firm of auditors to the General Meeting is proposed by Board of the Company. |
| 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. | No | The audit company didn't provide any non – audit services. |

## Statements of financial position

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | As of 31 December 2012 | As of 31 December 2011 | As of 31 December 2012 | As of 31 December 2011 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 4 | 57 | 187 | 57 | 187 |
| Property, plant and equipment | 5 | | | | |
| Land and buildings | | 12,652 | 13,003 | 12,652 | 13,003 |
| Machinery and equipment | | 22,848 | 14,988 | 22,847 | 14,987 |
| Vehicles | | 502 | 373 | 502 | 373 |
| Other property, plant and equipment | | 2,606 | 1,179 | 2,601 | 1,175 |
| Total property, plant and equipment | | 38,608 | 29,543 | 38,602 | 29,538 |
| Non-current financial assets | | | | | |
| Investments in subsidiaries | 6 | - | - | 17 | 17 |
| Total non-current financial assets | | - | - | 17 | 17 |
| Deferred income tax asset | 21 | 165 | 29 | 165 | 29 |
| **Total non-current assets** | | **38,830** | **29,759** | **38,841** | **29,771** |
| **Current assets** | | | | | |
| Inventories | 7 | 18,417 | 13,997 | 18,417 | 13,997 |
| Accounts receivable | | | | | |
| Trade receivables | 8 | 12,421 | 18,186 | 12,421 | 18,186 |
| Time deposits | 10 | 21,377 | 49,101 | 21,377 | 49,101 |
| Prepayments | | 146 | 144 | 145 | 143 |
| Current income tax prepayment | | 1,302 | 893 | 1,302 | 893 |
| Other receivables | 9 | 2,839 | 2,075 | 2,799 | 2,065 |
| Total accounts receivable | | 38,085 | 70,399 | 38,044 | 70,388 |
| Cash and cash equivalents | 10 | 3,171 | 1,906 | 3,117 | 1,816 |
| **Total current assets** | | **59,673** | **86,302** | **59,578** | **86,201** |
| **Total assets** | | **98,503** | **116,061** | **98,419** | **115,972** |

*(cont'd on the next page)*

The accompanying notes set out in pages 45 – 74 are an integral part of these financial statements.

## Statements of financial position (cont'd)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Notes** | **As of 31 December 2012** | **As of 31 December 2011** | **As of 31 December 2012** | **As of 31 December 2011** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Share capital | 1 | 15,545 | 15,545 | 15,545 | 15,545 |
| Legal reserve | 11 | 1,554 | 1,554 | 1,554 | 1,554 |
| Reserve for acquisition of own shares | 11 | 25,000 | 25,000 | 25,000 | 25,000 |
| Retained earnings | | 29,909 | 41,937 | 29,857 | 41,896 |
| **Total equity** | | **72,008** | **84,036** | **71,956** | **83,995** |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 12 | 280 | 197 | 280 | 197 |
| Provision for employee benefits | 14 | 1,673 | 997 | 1,673 | 997 |
| **Total non-current liabilities** | | **1,953** | **1,194** | **1,953** | **1,194** |
| **Current liabilities** | | | | | |
| Borrowings | 12 | 53 | 1,290 | 53 | 1,290 |
| Trade payables | 13 | 17,188 | 22,406 | 17,236 | 22,418 |
| Current income tax payable | | - | - | - | - |
| Other current liabilities and accrued expenses | 15 | 7,301 | 7,135 | 7,221 | 7,075 |
| **Total current liabilities** | | **24,542** | **30,831** | **24,510** | **30,783** |
| **Total liabilities** | | **26,495** | **32,025** | **26,463** | **31,977** |
| **Total equity and liabilities** | | **98,503** | **116,061** | **98,419** | **115,972** |

The accompanying notes set out in pages 45 – 74 are an integral part of these financial statements.

| | | | |
|---|---|---|---|
| General Director | Aidas Mackevicius | | 18 February 2013 |
| Chief Accountant | Ausra Kibirkstiene | | 18 February 2013 |

## Statements of comprehensive income

| | Notes | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|---|---|---|---|---|
| Revenue | 16 | 230,141 | 238,368 | 230,141 | 238,368 |
| Cost of sales | 17 | (186,617) | (196,620) | (186,803) | (196,770) |
| **Gross profit** | | **43,524** | **41,748** | **43,338** | **41,598** |
| Operating expenses | 18 | (14,951) | (12,667) | (14,784) | (12,513) |
| Other income | 19 | 1,490 | 1,424 | 1,498 | 1,432 |
| Other expenses | 19 | (854) | (792) | (854) | (792) |
| **Operating profit** | | **29,209** | **29,713** | **29,198** | **29,725** |
| Finance income | 20 | 553 | 1,558 | 553 | 1,558 |
| Finance costs | 20 | (108) | (341) | (108) | (341) |
| Finance costs - net | | 445 | 1,217 | 445 | 1,217 |
| **Profit before income tax** | | **29,654** | **30,930** | **29,643** | **30,942** |
| Income tax expense | 21 | (2,819) | (4,119) | (2,819) | (4,119) |
| **Profit for the year** | | **26,835** | **26,811** | **26,824** | **26,823** |
| Other comprehensive income | | - | - | - | - |
| **Total comprehensive income for the year** | | **26,835** | **26,811** | **26,824** | **26,823** |
| **Attributable to owners of the Company:** | | | | | |
| Profit | | 26,835 | 26,811 | 26,824 | 26,823 |
| Total comprehensive income | | 26,835 | 26,811 | 26,824 | 26,823 |
| Basic and diluted earnings per share (in LTL) | 22 | 6.91 | 6.90 | 6.90 | 6.90 |

The accompanying notes set out in pages 45 – 74 are an integral part of these financial statements.

| | | | |
|---|---|---|---|
| General Director | Aidas Mackevicius | | 18 February 2013 |
| Chief Accountant | Ausra Kibirkstiene | | 18 February 2013 |

## Statements of changes in equity

**Group**

| | | Attributable to the owners of the parent | | | | |
|---|---|---|---|---|---|---|
| | **Notes** | **Share capital** | **Other reserves** | **Legal reserve** | **Retained earnings** | **Total** |
| **Balance as of 31 December 2010** | | **15,545** | **25,000** | **1,554** | **30,671** | **72,770** |
| Profit for the year | | - | - | - | 26,811 | 26,811 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **26,811** | **26,811** |
| **Transactions with owners** | | | | | | |
| Dividends to equity holders of the Company | 15 | - | - | - | (15,545) | (15,545) |
| **Total transactions with owners** | | **-** | **-** | **-** | **(15,545)** | **(15,545)** |
| **Balance as of 31 December 2011** | | **15,545** | **25,000** | **1,554** | **41,937** | **84,036** |
| Profit for the year | | - | - | - | 26,835 | 26,835 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **26,835** | **26,835** |
| **Transactions with owners** | | | | | | |
| Dividends to equity holders of the Company | 15 | - | - | - | (38,863) | (38,863) |
| **Total transactions with owners** | | **-** | **-** | **-** | **(38,863)** | **(38,863)** |
| **Balance as of 31 December 2012** | | **15,545** | **25,000** | **1,554** | **29,909** | **72,008** |

**Company**

| | **Notes** | **Share capital** | **Other reserves** | **Legal reserve** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as of 31 December 2010** | | **15,545** | **25,000** | **1,554** | **30,618** | **72,717** |
| Profit for the year | | - | - | - | 26,823 | 26,823 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **26,823** | **26,823** |
| **Transactions with owners** | | | | | | |
| Dividends to equity holders of the Company | 15 | - | - | - | (15,545) | (15,545) |
| **Total transactions with owners** | | **-** | **-** | **-** | **(15,545)** | **(15,545)** |
| **Balance as of 31 December 2011** | | **15,545** | **25,000** | **1,554** | **41,896** | **83,995** |
| Profit for the year | | - | - | - | 26,824 | 26,824 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **26,824** | **26,824** |
| **Transactions with owners** | | | | | | |
| Dividends to equity holders of the Company | 15 | - | - | - | (38,863) | (38,863) |
| **Total transactions with owners** | | **-** | **-** | **-** | **(38,863)** | **(38,863)** |
| **Balance as of 31 December 2012** | | **15,545** | **25,000** | **1,554** | **29,857** | **71,956** |

The accompanying notes set out in pages 45 – 74 are an integral part of these financial statements.

| | | | |
|---|---|---|---|
| General Director | Aidas Mackevicius | | 18 February 2013 |
| Chief Accountant | Ausra Kibirkstiene | | 18 February 2013 |

## Statements of cash flows

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Cash flows from operating activities** | | | | |
| Profit before income tax | 29,654 | 30,930 | 29,643 | 30,942 |
| **Adjustments for:** | | | | |
| Depreciation and amortization | 5,571 | 6,390 | 5,569 | 6,388 |
| Change in provision for employee benefits | 676 | 226 | 676 | 226 |
| Result from the disposal of non-current assets | (26) | 5 | (26) | 5 |
| Write-off of non-current assets | 12 | 5 | 11 | 5 |
| Change in allowance for inventories | 1 | 113 | 1 | 113 |
| Financial expenses (income) | (473) | (1,269) | (473) | (1,269) |
| Other | - | 2 | - | 2 |
| | 35,415 | 36,402 | 35,401 | 36,412 |
| **Changes in working capital:** | | | | |
| Decrease (increase) in inventories | (4,421) | 5,269 | (4,421) | 5,269 |
| Decrease (increase) in prepayments | (2) | 86 | (2) | 86 |
| Decrease (increase) in trade receivables | 5,765 | (3,055) | 5,765 | (3,055) |
| Increase in other receivables | (4,129) | (3,038) | (4,099) | (3,049) |
| Increase (decrease) in trade payables | (5,218) | 118 | (5,182) | 93 |
| Decrease in other current payables and liabilities | (807) | (2,251) | (827) | (2,276) |
| **Cash flows from operating activities** | **26,603** | **33,531** | **26,635** | **33,480** |
| Income tax (paid) | - | - | - | - |
| **Net cash flows from operating activities** | **26,603** | **33,531** | **26,635** | **33,480** |
| **Cash flows from investing activities** | | | | |
| Loans granted to related party | - | (17,006) | - | (17,006) |
| Loan repayments received from related party | - | 47,280 | - | 47,280 |
| Received interest | 781 | 1,052 | 781 | 1,052 |
| Purchases of property, plant and equipment and intangible assets | (14,411) | (5,843) | (14,407) | (5,840) |
| Proceeds from disposal of property, plant and equipment | 97 | 21 | 97 | 21 |
| Transfer (to) from time deposits | 27,439 | (48,775) | 27,439 | (48,775) |
| **Net cash flows from (used in) investing activities** | **13,906** | **(23,271)** | **13,910** | **(23,268)** |

*(cont'd on the next page)*

The accompanying notes set out in pages 45 – 74 are an integral part of these financial statements.

## Statements of cash flows (cont'd)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Cash flows from (used in) financing activities** | | | | |
| Proceeds from loan from related party | 2,603 | - | 2,603 | - |
| Repayment of loan to related party | (2,603) | - | (2,603) | - |
| Repayments of borrowings | (1,370) | (4,627) | (1,370) | (4,627) |
| Dividends (paid) | (37,851) | (3,884) | (37,851) | (3,884) |
| Interest (paid) | (23) | (188) | (23) | (188) |
| **Net cash flows (used in) financing activities** | **(39,244)** | **(8,699)** | **(39,244)** | **(8,699)** |
| **Net (decrease) increase in cash and cash equivalents** | **1,265** | **1,561** | **1,301** | **1,513** |
| **Cash and cash equivalents at the beginning of the year** | **1,906** | **345** | **1,816** | **303** |
| **Cash and cash equivalents at the end of the year** | **3,171** | **1,906** | **3,117** | **1,816** |

The accompanying notes set out in pages 45 – 74 are an integral part of these financial statements.

| | | | |
|---|---|---|---|
| General Director | Aidas Mackevicius | | 18 February 2013 |
| Chief Accountant | Ausra Kibirkstiene | | 18 February 2013 |

## Notes to the financial statements

### 1 General information

Vilniaus Baldai AB (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is Savanoriu Ave. 178B, Vilnius, LT-03154, Lithuania.

The Company is engaged in furniture production and trade. The Company was registered on 9 February 1993, its shares are traded in the Main List on the NASDAQ OMX Vilnius AB.

As of 31 December 2012 and 2011 the shareholders of the Group and the Company were:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Number of votes held | Percentage | Number of votes held | Percentage |
| Invalda AB | 2,803,395 | 72.14 | 2,803,395 | 72.14 |
| Swedbank clients AS (Estonia) | 398,030 | 10.24 | 391,284 | 10.07 |
| - of which KJK Fund SICAV-SIF | 389,161 | 10.01 | 389,161 | 10.01 |
| Other minor shareholders | 684,842 | 17.62 | 691,588 | 17.79 |
| **Total** | **3,886,267** | **100.00** | **3,886,267** | **100.00** |

All the shares of the Company are ordinary shares with the par value of LTL 4 each and were fully paid as of 31 December 2012 and 2011. The share capital did not change in 2012 and 2011. The Company did not hold its own shares.

The Group consists of Vilniaus Baldai AB and its subsidiary joint stock company ARI-LUX UAB (hereinafter the Group). ARI-LUX UAB information as of 31 December 2012:

| Company | Registration address | Share of ownership held by the Company, % | Share capital | Income (loss) for the reporting period | Equity | Main activities |
|---|---|---|---|---|---|---|
| ARI-LUX UAB | Savanoriu Ave. 178, Vilnius | 100 | 10 | 11 | 57 | Packaging of accessories |

As of 31 December 2012 the number of employees of the Group and the Company was 464 and 424, respectively (as of 31 December 2011 – 507 and 456, respectively).

These financial statements include the consolidated financial statements of the Group and the separate financial statements of the Company.

The Company's management approved these financial statements on 18 February 2013. The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of another set of financial statements.

## 2 Accounting principles

The principal accounting policies adopted in preparing the Group and the Company's financial statements for the year ended 31 December 2012 are as follows:

### 2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter the IFRS), as adopted by the European Union (hereinafter the EU). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.28. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

**New standards, amendments and interpretations**

*(a) Standards, amendments and interpretations to existing standards effective in 2012 and relevant to the Group and the Company*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group and the Company.

*(b) New or revised standards effective in 2012 but not relevant to the Group and the Company*

***Disclosures—Transfers of Financial Assets – Amendments to IFRS 7*** (effective for annual periods beginning on or after 1 July 2011). This amendment did not have any impact on the Group's/Company's financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact to the Group and the Company.

*(c) New or revised standards and interpretations that are mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2013 and which the Group and Company have not early adopted*

***IFRS 10, Consolidated Financial Statements,*** *(effective for annual periods beginning on or after 1 January 2014),* replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". The Group/Company is currently assessing the impact of the standard on the financial statements.

***IFRS 11, Joint Arrangements,*** *(effective for annual periods beginning on or after 1 January 2014),* replaces IAS 31 'Interests in Joint Ventures' and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". The Group/Company does not expect the amendments to have impact on the financial statements.

***IFRS 12, Disclosure of Interest in Other Entities,*** *(effective for annual periods beginning on or after 1 January 2014),* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The Group/Company is currently assessing the impact of the standard on the financial statements.

***IFRS 13, Fair value measurement,*** *(effective for annual periods beginning on or after 1 January 2013).* The Group/Company is currently assessing the impact of the standard on the financial statements.

***IAS 27, Separate Financial Statements,*** *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2014).* The Group/Company is currently assessing the impact of the standard on the financial statements.

***IAS 28, Investments in Associates and Joint Ventures,*** *(revised in May 2011, effective for annual periods beginning on or after 1 January 2014).* The Group/Company does not expect the amendments to have impact on the financial statements.

## 2 Accounting principles (cont'd)

### 2.1. Basis of preparation (cont'd)

***Amended IAS 19, Employee Benefits***, *(effective for annual periods beginning on or after 1 January 2013.* The Group/Company is currently assessing the impact of the standard on the financial statements.

***Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*** *(effective for annual periods beginning on or after 1 January 2014).* The Group/Company does not expect the amendments to have any material effect on the financial statements.

***Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*** *(effective for annual periods beginning on or after 1 January 2013).* The Group/Company does not expect the amendments to have any material effect on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group and the Company.

### 2.2. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in a local currency, the litas (LTL), which is the Company's functional and presentation currency.

Starting from 2 February 2002, Lithuanian litas is pegged to euro at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

### 2.3. Principles of consolidation

The consolidated financial statements of the Group include Vilniaus Baldai AB and its subsidiary. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. All intercompany transactions, balances and unrealized gains and losses on transactions among the Group companies have been eliminated.

Consolidated financial statements are prepared on the basis of the same accounting principles applied to similar transactions and other events under similar circumstances. Financial statements of Subsidiary were prepared for the same period as that of the Company.

## 2 Accounting principles (cont'd)

### 2.4. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

Software

The costs of acquisition of new software are capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortized over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits that the Group and the Company expects from the originally assessed standard of performance of existing software systems are recognized as an expense when the restoration or maintenance work is carried out.

### 2.5. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of comprehensive income.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Buildings | 10 - 66 years |
| Machinery and equipment | 6 - 10 years |
| Vehicles | 5 - 10 years |
| Other property, plant and equipment | 2 - 6 years. |

The assets' residual values and useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items in property, plant and equipment.

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and available for use.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

## 2 Accounting principles (cont'd)

### 2.6. Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets based on its nature and purpose at initial recognition.

Financial assets are recognised on a trade date basis where the purchase or sale process is under a contract, which terms require delivery of the financial assets within the timeframe established by the market concerned. Financial assets are recognised initially at fair value, plus, in the case of investments are not carried at fair value through profit or loss, directly attributable transaction costs.

The Group's/ Company's financial assets include cash, time deposits, trade receivables and other receivables and loans are are classified in the category of loans and receivables.

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at cost less impairment, and non-current receivables and loans granted - at amortised cost, less impairment.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Effective interest rate method

Effective interest rate method is used to calculate amortised cost of financial assets and allocate interest income over the relevant period. The effective interest rate exactly discounts estimated future cash flows through the expected life of the financial asset.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Group/ Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group/ Company has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### 2.7. Investments into subsidiaries in the Company's separate financial statements

Investments in subsidiaries and associated companies are accounted at cost in the Company's separate financial statements. Cost of investment is decreased by impairment losses. An assessment of recoverable amount of investment is performed for each investment individually.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount in the Company's statements of financial position, an impairment loss is recognized.

## 2 Accounting principles (cont'd)

### 2.8. Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow - moving items. Net realizable value is the selling price in the ordinary course of business, less the costs of completion and applicable variable marketing and distribution costs. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealizable inventory is fully written-off.

### 2.9. Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as noncurrent assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.10 Cash and cash equivalents

Cash includes cash on hand and cash with banks and bank overdrafts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, time deposits held at call with banks with original maturities of 3 months or less and other short-term highly liquid investments.

### 2.11. Share capital

Ordinary shares are classified as equity. Ordinary shares are stated at their par value.

### 2.12. Dividends distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders. Dividends paid are classified as financing cash flows in the statement of cash flows.

### 2.13. Borrowings

Borrowing costs are expensed as incurred, unless they are directly attributable to acquisition, construction or production of a qualifying asset.

Borrowings are initially recognized at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortized cost, the difference between net proceeds and redemption value being recognized in the net profit or loss over the period of the borrowings using the effective interest method.

Interest paid is classified as investing activities cash flows in the statement of cash flows.

## 2 Accounting principles (cont'd)

### 2.14. Leases

*The Company and the Group are the lessees*

*(a) Finance lease*
Leases of property, plant and equipment where the Company or the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

*(b) Operating lease*
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

*The Company and the Group are the lessors*

*(c) Operating lease*
Payments received under operating leases (net of any incentives given to the lessee) are credited to the statement of comprehensive income n a straight-line basis over the period of the lease.

### 2.15. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.16. Employee benefits

*(a) Social security contributions*
The Company and the Group pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution is a plan under which the Company/ Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and are included in payroll expenses.

*(b) Termination benefits*
Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group or the Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to their present value.

*(c) Bonus plans*
The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2 Accounting principles (cont'd)

*(d) Provisions for pensions and jubilee payments*
According to the terms of the collective employment agreement effective at the Company, each employee is entitled to a jubilee benefit and a pension benefit amounting to 2 or 3 months' salary payment when leaving the Company after reaching the pension age. Actuarial calculations are made to determine liability for such payments. The liability is recognised at present value discounted using market interest rate.

### 2.17. Provisions

Provisions are recognized when the Group and the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are reviewed at each statement of financial position date and adjusted in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

### 2.18. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The income tax rate in Lithuania was 15 % in 2012 (15 % in 2011).

Since 2008 tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. Starting from 2010, tax losses can be transferred at no consideration or in exchange for certain consideration between the group companies if certain conditions are met.

Deferred taxes are calculated using the statement of financial position liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the statement of financial position date.

Deferred tax asset has been recognized in statement of financial position to the extent the management believes it will be realized in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realized, this part of the deferred tax asset is not recognized in the financial statements.

Deferred tax assets and liabilities are offset when they are related to profit taxes levied by the same tax authority and when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Income tax and deferred tax for the accounting period

Income tax and deferred income tax are charged or credited to profit or loss, except when they relate to items included directly to equity, in which case the deferred income tax is also accounted for in equity.

## 2 Accounting principles (cont'd)

### 2.19. Revenue recognition

*a) Sales of goods*
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of VAT and discounts.

Revenue from sales of goods is recognized when delivery has taken place and transfer of risks and rewards has been completed.

*b) Interest income*
Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group and the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate. Interest income is classified as financing cash flows in the statement of cash flows.

### 2.20. Expense recognition

Expenses are recognized on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted for as the amount paid or due, excluding VAT. In the cases when a long period of payment is established and the interest is not distinguished, the amount of expenses shall be estimated by discounting the amount of payment using the market interest rate.

### 2.21. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the statement of financial position date are recognized in the statement of comprehensive income. Such balances are translated at period-end exchange rates.

## 2 Accounting principles (cont'd)

### 2.22. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each statement of financial position date.

For financial assets carried at amortized cost, whenever it is probable that the Group and the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognized in the statement of comprehensive income. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the statement of comprehensive income. However, the increased carrying amount is only recognized to the extent it does not exceed the amortized cost that would have been had the impairment not been recognized.

Non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of comprehensive income. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. Reversal is accounted for in the same caption of the statement of comprehensive income as impairment losses. For evaluation of impairment of assets the entire Group is considered one cash generating unit.

### 2.23. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of directors that makes strategic decisions.

### 2.24. Related parties

Related parties are defined as shareholders, employees, members of the Board, their close relatives and companies that directly or indirectly (through the intermediary) control or are controlled by, or are under common control with, the Group and 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.

### 2.25. Contingencies

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

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

### 2.26. Subsequent events

Post-statement of financial position events that provide additional information about the Group's and the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-statement of financial position events that are not adjusting events are disclosed in the notes when material.

## 2 Accounting principles (cont'd)

### 2.27. Offsetting and comparative figures

When preparing the financial statements, revenue and expenses are not set off, except the cases when certain IFRS specifically require such set-off. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 2.28. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies, at the reporting date and within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates and assumptions

The main areas where management is required to make significant and critical judgements and areas where estimates and assumptions might have significant impact for the preparation of financial statements are described below:

*Property, plant and equipment – useful life*
The key assumptions concerning determination the useful life of property, plant and equipment are as follows: expected usage term of the asset, expected technical or commercial obsolescence arising from changes or improvements in the production on legal or similar limits on the use of the asset, such as the expiry dates of related leases. Further details are given in Note 2.5.

*Tax liabilities*
The tax authorities have a right to examine the Company's books and accounting records at anytime during the 5 years' period after the current tax year and account for additional taxes and fines. In the opinion of the Company's management currently there are no circumstances which would raise substantial liability in this respect.

*Related-party transactions*
In the normal course of business the Company enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties.

*Pension and jubilee benefits*

Key assumptions used in determining the provision for pension and jubilee benefits are as follows: employee turnover rate by age group, discount rate, and wage and salary growth. The Company's management makes judgements in relation to these assumptions. See Note 14 for more details.

## 3 Segment information

Management of the Company has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

The board of directors considers the business from both a geographic and product perspective to certain extent. Geographically, management considers sales volume to Lithuania, the European Union countries and the rest of the world depending on where the production is delivered. From product perspective management considers only the product quantities delivered by product type. All financial information, including the measure of profit and total assets, is analysed as single reportable segment – furniture production and trade, therefore is not further disclosed in these financial statements.

The entity is domiciled in Lithuania. Breakdown of revenue by the location where production is delivered:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| European Union countries | 185,440 | 206,170 | 185,440 | 206,170 |
| Other than European Union countries | 40,158 | 26,221 | 40,158 | 26,221 |
| Lithuania | 4,543 | 5,977 | 4,543 | 5,977 |
| | **230,141** | **238,368** | **230,141** | **238,368** |

## 4 Intangible assets

| | Software | |
|---|---|---|
| | Group | Company |
| **Cost:** | | |
| Balance as of 31 December 2010 | 805 | 805 |
| Additions | 9 | 9 |
| Write-offs | (384) | (384) |
| Balance as of 31 December 2011 | 430 | 430 |
| Additions | - | - |
| Write-offs | (22) | (22) |
| Balance as of 31 December 2012 | 408 | 408 |
| **Accumulated amortisation:** | | |
| Balance as of 31 December 2010 | 482 | 482 |
| Charge for the year | 145 | 145 |
| Write-offs | (384) | (384) |
| Balance as of 31 December 2011 | 243 | 243 |
| Charge for the year | 130 | 130 |
| Write-offs | (22) | (22) |
| Balance as of 31 December 2012 | 351 | 351 |
| **Net book value as of 31 December 2012** | **57** | **57** |
| **Net book value as of 31 December 2011** | **187** | **187** |

Amortization expenses of intangible assets are included within operating expenses in the statement of comprehensive income. Part of the non-current intangible assets of and the Group and the Company with the acquisition cost of LTL 13 thousand as of 31 December 2012 (as of 31 December 2011 – LTL 28 thousand) was fully amortised but was still in use.

## 5 Property, plant and equipment

**Group**

| | Land and buildings | Machinery and equipment | Vehicles | Other property, plant and equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance as of 31 December 2010 | 22,647 | 58,419 | 371 | 3,329 | 84,766 |
| Additions | 933 | 3,019 | 125 | 1,845 | 5,922 |
| Disposals and retirements | - | (1,590) | (37) | (193) | (1,820) |
| Reclassified from/ to | 100 | 1,235 | - | (1,335) | - |
| Balance as of 31 December 2011 | 23,680 | 61,083 | 459 | 3,646 | 88,868 |
| Additions | 350 | 10,339 | 135 | 3,765 | 14,589 |
| Disposals and retirements | - | (1,457) | - | (289) | (1,746) |
| Reclassified from/ to | - | 1,979 | 43 | (2,022) | - |
| Balance as of 31 December 2012 | 24,030 | 71,944 | 637 | 5,100 | 101,711 |
| **Accumulated depreciation:** | | | | | |
| Balance as of 31 December 2010 | 9,965 | 42,505 | 88 | 2,311 | 54,869 |
| Charge for the year | 712 | 5,153 | 35 | 345 | 6,245 |
| Disposals and retirements | - | (1,563) | (37) | (189) | (1,789) |
| Balance as of 31 December 2011 | 10,677 | 46,095 | 86 | 2,467 | 59,325 |
| Charge for the year | 701 | 4,385 | 49 | 306 | 5,441 |
| Disposals and retirements | - | (1,384) | - | (279) | (1,663) |
| Balance as of 31 December 2012 | 11,378 | 49,096 | 135 | 2,494 | 63,103 |
| **Net book value as of 31 December 2012** | **12,652** | **22,848** | **502** | **2,606** | **38,608** |
| **Net book value as of 31 December 2011** | **13,003** | **14,988** | **373** | **1,179** | **29,543** |

## 5 Property, plant and equipment (cont'd)

**Company**

| | Land and buildings | Machinery and equipment | Vehicles | Other property, plant and equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance as of 31 December 2010 | 22,647 | 58,408 | 371 | 3,298 | 84,724 |
| Additions | 933 | 3,019 | 125 | 1,842 | 5,919 |
| Disposals and retirements | - | (1,590) | (37) | (165) | (1,792) |
| Reclassified from/ to | 100 | 1,235 | - | (1,335) | - |
| Balance as of 31 December 2011 | 23,680 | 61,072 | 459 | 3,640 | 88,851 |
| Additions | 350 | 10,338 | 135 | 3,762 | 14,585 |
| Disposals and retirements | - | (1,457) | - | (286) | (1,743) |
| Reclassified from/ to | - | 1,979 | 43 | (2,022) | - |
| Balance as of 31 December 2012 | 24,030 | 71,932 | 637 | 5,094 | 101,693 |
| **Accumulated depreciation:** | | | | | |
| Balance as of 31 December 2010 | 9,965 | 42,496 | 88 | 2,282 | 54,831 |
| Charge for the year | 712 | 5,152 | 35 | 344 | 6,243 |
| Disposals and retirements | - | (1,563) | (37) | (161) | (1,761) |
| Balance as of 31 December 2011 | 10,677 | 46,085 | 86 | 2,465 | 59,313 |
| Charge for the year | 701 | 4,384 | 49 | 305 | 5,439 |
| Disposals and retirements | - | (1,384) | - | (277) | (1,661) |
| Balance as of 31 December 2012 | 11,378 | 49,085 | 135 | 2,493 | 63,091 |
| **Net book value as of 31 December 2012** | **12,652** | **22,847** | **502** | **2,601** | **38,602** |
| **Net book value as of 31 December 2011** | **13,003** | **14,987** | **373** | **1,175** | **29,538** |

Depreciation charge for the year was recognised as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Cost of sales | 4,947 | 6,049 | 4,946 | 6,048 |
| Operating expenses | 311 | 350 | 310 | 349 |
| Inventories – finished goods | 183 | (154) | 183 | (154) |
| | **5,441** | **6,245** | **5,439** | **6,243** |

Part of property, plant and equipment of the Group and the Company with the acquisition cost of LTL 19,249 thousand and LTL 19,240 thousand was fully depreciated as of 31 December 2012 (LTL 14,026 thousand and LTL 14,017 thousand as of 31 December 2011) but was still in active use. The major part of the fully depreciated property, plant and equipment consists of machinery and equipment.

The net book value of property, plant and equipment acquired under finance lease contracts, from which the Company's financial liabilities arise, amounted to LTL 461 thousand as of 31 December 2012 (LTL 321 thousand as of 31 December 2011). Property, plant and equipment acquired under finance lease contracts is classified in the category of vehicles.

## 5 Property, plant and equipment (cont'd)

The acquisition cost of the Company's and the Group's property, plant and equipment that has been prepared for bringing into use amounted to LTL 11,198 thousand as o f 31 December 2012 (LTL 370 thousand as o f 31 December 2011). Such property is classified in the category of machinery and equipment.

At the end of 2012, the Company entered into contracts with Homag Holzbearbeitungssysteme GmbH for the acquisition of modern equipment. The total amount of commitments to purchase property, plant and equipment under the contracts is LTL 4,807 thousand.

The Company's prepayments for non-current assets amounted to LTL 1,554 thousand as o f 31 December 2012. The Group and the Company classified their prepayments in the category of machinery and equipment.

## 6 Investments into subsidiaries and associates

Acquisitions cost of investments of the Company into subsidiaries as of 31 December 2012 and 2011 are presented below:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Share capital | Acquisition cost | Share capital | Acquisition cost |
| ARI - LUX UAB | 100% | 17 | 100% | 17 |
| | | **17** | | **17** |

Changes in the carrying amount of investments of the Company into subsidiaries in 2012 and 2011 are presented below:

| | Company | |
|---|---|---|
| | 2012 | 2011 |
| Balance at the beginning of the year | 17 | 17 |
| Value changes | - | - |
| Balance at the end of the year | **17** | **17** |

## 7 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Raw materials | 3,840 | 6,993 | 3,840 | 6,993 |
| Work in progress | 2,219 | 2,422 | 2,219 | 2,422 |
| Finished goods | 12,420 | 4,661 | 12,420 | 4,661 |
| Goods for resale | 18 | - | 18 | - |
| | 18,497 | 14,076 | 18,497 | 14,076 |
| Less: write-down to net realizable value | (80) | (79) | (80) | (79) |
| | **18,417** | **13,997** | **18,417** | **13,997** |

Raw materials consist of wood, accessories, plastics, chemical materials and other materials used in production.
Inventories previously written down and amounting to LTL 79 thousand in 2012 (LTL 113 thousand in 2011) were disposed and written off. Changes in the write-down allowance for inventories for the years 2012 and 2011 were included in cost of goods sold.

## 8 Trade receivables

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|---|---|---|---|
| Trade receivables, gross | 12,421 | 18,186 | 12,421 | 18,186 |
| Less: impairment for doubtful trade receivables | - | - | - | - |
| | **12,421** | **18,186** | **12,421** | **18,186** |

Trade receivables are non-interest bearing and are generally on 30 days terms.

As of 31 December 2012 no allowance was recognised for trade receivables of the Group and the Company with the nominal value of LTL 12,421 thousand (LTL 18,186 thousand in 2011).

The ageing analysis of the Group's and Company's trade receivables as of 31 December 2012 and 2011 is as follows:

| | Trade receivables neither past due nor impaired | Trade receivables past due, but not impaired: Less than 30 days | 30 - 60 days | 60 - 90 days | 90 - 120 days | More than 120 days | Total |
|---|---|---|---|---|---|---|---|
| **2012** | 9,759 | 2,659 | - | - | 3 | - | **12,421** |
| **2011** | 16,783 | 1,403 | - | - | - | - | **18,186** |

## 9 Other receivables

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|---|---|---|---|
| Refundable VAT | 2,583 | 1,896 | 2,583 | 1,896 |
| Other receivables | 256 | 179 | 216 | 169 |
| | 2,839 | 2,075 | 2,799 | 2,065 |
| Less: allowance for doubtful other receivables | - | - | - | - |
| | **2,839** | **2,075** | **2,799** | **2,065** |

Other receivables of the Group and the Company were neither past due nor impaired as of 31 December 2012 and 2011.

## 10 Cash and cash equivalents

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|---|---|---|---|
| Cash at bank | 3,171 | 1,526 | 3,117 | 1,436 |
| Cash on hand | - | 3 | - | 3 |
| Time deposits with the maturity less than 3 months | - | 377 | - | 377 |
| | **3,171** | **1,906** | **3,117** | **1,816** |

## 10 Cash and cash equivalents (cont'd)

On 31 December 2012 and 2011 the Group and the Company have also placed in the banks time deposits with the maturity more than 3 months:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Time deposits with the maturity between 3 and 6 months | 9,020 | 10,794 | 9,020 | 10,794 |
| Time deposits with the maturity more than 6 months | 12,316 | 37,981 | 12,316 | 37,981 |
| Accumulated interest | 41 | 326 | 41 | 326 |
| | **21,377** | **49,101** | **21,377** | **49,101** |

## 11 Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 % of net profit are compulsory until the reserve reaches 10 % of the share capital.

Reserve for acquisition of own shares

During the ordinary general meeting of shareholders held on 29 April 2010 a decision was passed to make a transfer of LTL 25,000 thousand from the Company's retained earnings to the reserve for the acquisition of own shares. The issue on the acquisition of own shares will be deliberated by shareholders in future in view of the Company's results of operations and the market situation.

## 12 Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | As of 31 December 2012 | As of 31 December 2011 | As of 31 December 2012 | As of 31 December 2011 |
| **Non-current borrowings** | | | | |
| Finance lease | 280 | 197 | 280 | 197 |
| | 280 | 197 | 280 | 197 |
| **Current borrowings** | | | | |
| Current portion of non-current bank borrowings | - | 1,253 | - | 1,253 |
| Current portion of non-current finance lease | 53 | 37 | 53 | 37 |
| | 53 | 1,290 | 53 | 1,290 |
| | **333** | **1,487** | **333** | **1,487** |

## 12 Borrowings (cont'd)

Terms of repayment of non-current and current borrowings of the Group and the Company are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | As of 31 December 2012 | | | |
| | Fixed interest rate | Variable interest rate | Fixed interest rate | Variable interest rate |
| 2013 | - | 53 | - | 53 |
| 2014 | - | 55 | - | 55 |
| 2015 | - | 116 | - | 116 |
| 2016 | - | 50 | - | 50 |
| 2017 | - | 59 | - | 59 |
| | **-** | **333** | **-** | **333** |

Actual interest rates are close to the effective interest rates. As of 31 December 2012 the weighted average annual interest rate on outstanding balances of the Group's and the Company's borrowings was 3.13 % (3.39 % as of 31 December 2011). In 2012 and 2011, the period of repricing variable interest rates on borrowings was 3 and 6 months.

Weighted average interest rates of borrowings outstanding at the year end:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Non-current borrowings | - | 3.11% | - | 3.11% |
| Finance lease | 3.13% | 4.89% | 3.13% | 4.89% |

Parts of borrowings at the end of the year in national and foreign currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Borrowings denominated in:** | | | | |
| EUR | 333 | 1,487 | 333 | 1,487 |
| LTL | - | - | - | - |
| | **333** | **1,487** | **333** | **1,487** |

## 13 Trade payables

Trade payables are non-interest bearing and are normally settled on 30 – 60 days terms.

## 14 Provisions for employee benefits

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Provisions for pension and jubilee benefits | 1,673 | 997 | 1,673 | 997 |
| | **1,673** | **997** | **1,673** | **997** |

Provision for pension and jubilee benefits comprises amounts calculated in line with the collective employment agreement effective at the Company. Each employee is entitled to a jubilee benefit and a pension benefit amounting to 2 or 3 months' salary payments on leaving the Company after reaching the retirement age. Key assumptions used in determining the provision for pension and jubilee benefits are as follows: employee turnover rate by age group, discount rate, and wage and salary growth. Increase in the provision was mainly caused by a lower employee turnover rate within the age group of 45 to 59 years.

## 15 Other current and accrued liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Amounts payable for the take-over of tax losses (Note 25) | 1,524 | 2,711 | 1,524 | 2,711 |
| Payroll related liabilities | 3,877 | 3,279 | 3,805 | 3,230 |
| Dividends payable | 1,756 | 744 | 1,756 | 744 |
| Operation taxes payable | 72 | 98 | 64 | 87 |
| Other payables and accrued liabilities | 72 | 303 | 72 | 303 |
| | **7,301** | **7,135** | **7,221** | **7,075** |

Terms and conditions of the above financial liabilities:

- Other payables are non-interest bearing and are normally settled on 15 – 30 day terms.

On 27 April 2012 the Annual General Meeting decided to pay LTL 38,863 thousand dividends (10 LTL attributable for 1 ordinary share). The balance of dividends payable amounted to LTL 1,756 thousand as at 31 December 2012 (31 December 2011 – LTL 744 thousand).

## 16 Revenue

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Sales of goods | 230,141 | 238,366 | 230,141 | 238,366 |
| Revenue from services | - | 2 | - | 2 |
| | **230,141** | **238,368** | **230,141** | **238,368** |

In 2012 and 2011 sales of goods comprised sales of furniture which accounted for approx. 98 per cent of total sales and sales of raw materials and waste of raw materials.

The main customer of the Company is IKEA Supply AG in 2012 sales are amounting to LTL 225,587 thousand, i.e. 98 per cent (in 2011 sales were amounting to LTL 232,379 thousand, i.e. 98 per cent). The Company is working with this customer on the basis of the short-term agreements since 1998.

## 17 Cost of sales

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Materials | 146,337 | 153,240 | 146,337 | 153,240 |
| Wages, salaries | 14,811 | 14,104 | 14,359 | 13,794 |
| Social security | 4,564 | 4,344 | 4,427 | 4,252 |
| Depreciation | 4,947 | 6,049 | 4,946 | 6,048 |
| Acquired furniture and materials | 3,988 | 5,211 | 3,988 | 5,211 |
| Other production expenses | 11,970 | 13,672 | 12,746 | 14,225 |
| | **186,617** | **196,620** | **186,803** | **196,770** |

## 18 Operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Wages, salaries | 3,377 | 3,167 | 3,276 | 3,068 |
| Social security | 1,050 | 984 | 1,019 | 954 |
| Transportation and logistics expenses | 4,451 | 4,159 | 4,451 | 4,159 |
| Bonus for the Board members | 3,000 | 795 | 3,000 | 795 |
| Depreciation and amortization | 441 | 495 | 440 | 494 |
| Audit and consultation expenses | 405 | 434 | 405 | 433 |
| Waste utilisation expenses | 218 | 413 | 218 | 413 |
| Utilities, maintenance and communications | 295 | 312 | 294 | 311 |
| Business trips expenses | 122 | 152 | 122 | 152 |
| Charity and support expenses | 49 | 54 | 47 | 53 |
| Other | 1,543 | 1,702 | 1,512 | 1,681 |
| | **14,951** | **12,667** | **14,784** | **12,513** |

## 19 Other operating income and expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Other operating income** | | | | |
| Rent and utilities income | 1,351 | 1,310 | 1,359 | 1,317 |
| Gain on disposal of property, plant and equipment | 26 | 7 | 26 | 7 |
| Other income | 113 | 107 | 113 | 108 |
| | **1,490** | **1,424** | **1,498** | **1,432** |
| **Other operating expenses** | | | | |
| Direct costs of rent income | (821) | (780) | (821) | (780) |
| Losses on disposal of property, plant and equipment | - | (12) | - | (12) |
| Other expenses | (33) | - | (33) | - |
| | **(854)** | **(792)** | **(854)** | **(792)** |

## 20 Income and expenses from financial and investment activities

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Financial income** | | | | |
| Interest income on loans to related parties | 496 | 1,450 | 496 | 1,450 |
| Currency exchange gain | 57 | 108 | 57 | 108 |
| | **553** | **1,558** | **553** | **1,558** |
| **Financial costs** | | | | |
| Interest expenses | (23) | (181) | (23) | (181) |
| Currency exchange (expenses) | (85) | (160) | (85) | (160) |
| | **(108)** | **(341)** | **(108)** | **(341)** |

## 21 Income tax

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Components of the income tax expense** | | | | |
| Income tax expenses for the reporting year | 2,938 | 4,398 | 2,938 | 4,398 |
| Adjustments in respect of prior year | (17) | (217) | (17) | (217) |
| Income tax expenses from dividends paid to physical persons | 34 | 3 | 34 | 3 |
| Total current tax | 2,955 | 4,184 | 2,955 | 4,184 |
| Origination and reversal of temporary differences | (136) | (65) | (136) | (65) |
| Total deferred tax | (136) | (65) | (136) | (65) |
| Income tax expense | **2,819** | **4,119** | **2,819** | **4,119** |

Deferred income tax asset and liability as of 31 December 2012 and 2011 was accounted for using tax rate of 15 %.

## 21 Income tax (cont'd)

Income tax expense disclosed in the statement of comprehensive income may be reconciled to income tax expense that would arise using an enacted income tax rate applicable to profit before income tax.

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Profit before tax | 29,654 | 30,930 | 29,643 | 30,942 |
| Tax calculated at statutory 15% tax rate | 4,448 | 4,640 | 4,446 | 4,641 |
| Expenses not deductable for tax purposes | 85 | 55 | 86 | 54 |
| Income not subject to tax | (16) | (4) | (16) | (4) |
| Correction of income tax for the previous periods | (17) | (217) | (17) | (217) |
| Profit relief due to investments | (1,666) | (339) | (1,666) | (339) |
| Charity expenses deductible twice for tax purposes | (15) | (16) | (14) | (16) |
| Income tax expenses | **2,819** | **4,119** | **2,819** | **4,119** |

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Deferred tax assets:** | | | | |
| – Deferred tax asset to be recovered after more than 12 months | 263 | 154 | 263 | 154 |
| – Deferred tax asset to be recovered within 12 months | 100 | 89 | 100 | 89 |
| **Deferred tax liabilities:** | | | | |
| – Deferred tax liability to be recovered after more than 12 months | (198) | (214) | (198) | (214) |
| – Deferred tax liability to be recovered within 12 months | - | - | - | - |
| | **165** | **29** | **165** | **29** |

The movement in the Group's and Company's deferred tax assets and liabilities (prior to and after offsetting the balances) during a period was as follows:

| **Group** | **2010** | **Credited (debited) to income tax expenses** | **2011** | **Credited (debited) to income tax expenses** | **2012** |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| – Provision for inventories | 29 | (17) | 12 | - | 12 |
| – Accrued charges | 178 | 53 | 231 | 120 | 351 |
| | 207 | 36 | 243 | 120 | 363 |
| **Deferred tax liabilities** | | | | | |
| – Investments | (243) | 29 | (214) | 16 | (198) |
| | (243) | 29 | (214) | 16 | (198) |
| **Deferred tax liabilities, net** | **(36)** | **65** | **29** | **136** | **165** |

## 21 Income tax (cont'd)

| Company | 2010 | Credited (debited) to income tax expenses | 2011 | Credited (debited) to income tax expenses | 2012 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| – Provision for inventories | 29 | (17) | 12 | - | 12 |
| – Accrued charges | 178 | 53 | 231 | 120 | 351 |
| | 207 | 36 | 243 | 120 | 363 |
| **Deferred tax liabilities** | | | | | |
| – Investments | (243) | 29 | (214) | 16 | (198) |
| | (243) | 29 | (214) | 16 | (198) |
| **Deferred tax liabilities, net** | **(36)** | **65** | **29** | **136** | **165** |

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 the deferred income taxes relate to the same fiscal authority.

## 22 Earnings per share

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

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| Net profit for the year | 26,835 | 26,811 |
| Weighted average number of shares in issue (thousand) | 3,886 | 3,886 |
| Basic earnings per share (in LTL) | **6.91** | **6.90** |

As there were no changes in the share capital of the Company during 2012 and 2011, therefore the weighted average number of shares equals to the total number of shares.

## 23 Financial assets and liabilities and risk management

Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

| | Group | | Company | |
|---|---|---|---|---|
| | Category - Loans and receivables | | Category - Loans and receivables | |
| | 2012 | 2011 | 2012 | 2011 |
| **Financial assets** | | | | |
| Trade and other receivables | 12,677 | 18,365 | 12,637 | 18,355 |
| Time deposits | 21,377 | 49,101 | 21,377 | 49,101 |
| Cash and cash equivalents | 3,171 | 1,906 | 3,117 | 1,816 |
| **Total** | **37,225** | **69,372** | **37,131** | **69,272** |

## 23 Financial assets and liabilities and risk management (cont'd)

| | Group | | Company | |
|---|---|---|---|---|
| | Category - Financial liabilities measured at amortised cost | | Category - Financial liabilities measured at amortised cost | |
| | **2012** | **2011** | **2012** | **2011** |
| **Financial liabilities** | | | | |
| Borrowings | - | 1,253 | - | 1,253 |
| Obligations under finance leases | 333 | 234 | 333 | 234 |
| Trade and other payables | 20,540 | 26,163 | 20,588 | 26,175 |
| **Total** | **20,873** | **27,650** | **20,921** | **27,662** |

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's and Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets – inventories) / total current liabilities) as of 31 December 2012 were 2.43 and 1.68, respectively (the Group's and the Company's liquidity and quick ratio as of 31 December 2011 – 2.80 and 2.34, respectively).

The tables below summarises the maturity profile of the Group's and the Company's financial liabilities as of 31 December 2012 based on contractual undiscounted cash flows (planed payments with interest):

| **Group** | **On demand** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Interest bearing loans and borrowings | - | 653 | 667 | 220 | - | 1,540 |
| Trade and other payables | 744 | 22,708 | 2,711 | - | - | 26,163 |
| **Balance as of 31 December 2011** | **744** | **23,361** | **3,378** | **220** | **-** | **27,703** |
| Interest bearing loans and borrowings | - | 15 | 46 | 294 | - | 355 |
| Trade and other payables | 1,756 | 17,260 | 1,524 | - | - | 20,540 |
| **Balance as of 31 December 2012** | **1,756** | **17,275** | **1,570** | **294** | **-** | **20,895** |

| **Company** | **On demand** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Interest bearing loans and borrowings | - | 653 | 667 | 220 | - | 1,540 |
| Trade and other payables | 744 | 22,720 | 2,711 | - | - | 26,175 |
| **Balance as of 31 December 2011** | **744** | **23,373** | **3,378** | **220** | **-** | **27,715** |
| Interest bearing loans and borrowings | - | 15 | 46 | 294 | - | 355 |
| Trade and other payables | 1,756 | 17,308 | 1,524 | - | - | 20,588 |
| **Balance as of 31 December 2012** | **1,756** | **17,323** | **1,570** | **294** | **-** | **20,943** |

## 23 Financial assets and liabilities and risk management (cont'd)

Credit risk

The Group and the Company has significant concentration of trading counterparties. The main customer of the Group and the Company – IKEA Supply AG – as of 31 December 2012 and as of 31 December 2011 accounts for approximately 99 % of the total Group's and Company's trade receivables. Also the major part of the Company's sales is with this customer (Note 16).

The Group and the Company do not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Consequently, the Management of the Group and the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognised at the statement of financial position date.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payments obligations since receivables balances are monitored on an ongoing basis.

The maximum exposure to credit risk of Group's and Company's cash and cash equivalents and term deposits is equal to fair value of cash and cash equivalents and term deposits at the date of financial position statements preparation. The management of the Group and the Company considers that risk arising from investments of cash and cash equivalents into short term financial instruments are not significant, as investments are made only in commercial banks in Lithuania which have high credit ratings.

Foreign exchange risk

Major currency risks of the Group and the Company occur due to the fact that the Group and the Company borrows foreign currency denominated funds as well as is being involved in imports and exports. The Group's and the Company's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group and the Company does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR, to which LTL is pegged.

Monetary assets and liabilities stated in various currencies as of 31 December 2012 were as follows (stated in LTL):

| | Group | | Company | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| LTL | 28,387 | 14,746 | 28,293 | 14,794 |
| EUR | 8,836 | 5,911 | 8,836 | 5,911 |
| PLN | 2 | 216 | 2 | 216 |
| **Total** | **37,225** | **20,873** | **37,131** | **20,921** |

## 23 Financial assets and liabilities and risk management (cont'd)

The following table demonstrates the sensitivity to a reasonably possible change in respect currency exchange rate, with all other variable held constant of the Company's profit before tax (due to change in the fair value of monetary assets and liabilities).

| | Increase/ decrease in exchange rate, % | Effect on the profit before tax |
|---|---|---|
| **2012** | | |
| PLN | +10% | (21) |
| PLN | -10% | 21 |
| **2011** | | |
| PLN | +10% | (43) |
| PLN | -10% | 43 |

Interest rate risk

The major part of the Group's and the Company's borrowings is with variable interest rates, related to EURIBOR, which creates an interest rate risk. There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2012 and 2011.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's and the Company's equity except for the impact of the current portion of net income.

| | Increase / decrease, % | Effect on profit before tax |
|---|---|---|
| **2012** | | |
| LTL | +1% | - |
| EUR | +1% | (3) |
| LTL | -0.1% | - |
| EUR | -0.1% | - |
| **2011** | | |
| LTL | +1% | - |
| EUR | +1% | (15) |
| LTL | -0.1% | - |
| EUR | -0.1% | 1 |

Fair value of financial instruments

The Group's and the Company's principal financial instruments accounted for at amortised cost are trade and other current and non-current receivables, trade and other payables, long-term and short-term borrowings. The net book value of these amounts approximates their fair value.

Fair value is defined as the amount at which the instrument could be exchanged 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.

## 23 Financial assets and liabilities and risk management (cont'd)

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade accounts receivable, current trade accounts payable, other receivables and other payables and short-term borrowings approximates fair value.
(b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

| | Group | | Company | |
|---|---|---|---|---|
| | Category - Loans and receivables | | Category - Loans and receivables | |
| | **2012** | **2011** | **2012** | **2011** |
| Trade and other receivables with no history of counterparty defaults | 10,015 | 16,962 | 9,975 | 16,952 |
| Time deposits* | 21,377 | 49,101 | 21,377 | 49,101 |
| Cash at bank that have high* credit ratings | 3,171 | 1,900 | 3,117 | 1,810 |
| **Total** | **34,563** | **67,963** | **34,469** | **67,863** |

* Credit rate A provided by Fitch Ratings Agency

The Group and the Company held cash and make investments only in the short term financial instruments of commercial banks in Lithuania with high credit ratings.

## 24 Capital management

The Group's and the Company's capital includes share capital, legal reserves and retained earnings. The primary objective of the capital management is to ensure that the Group and the Company comply with externally imposed capital requirements.

The Group and the Company manage their capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year end 31 December 2012.

The Company is obliged to keep its equity at no less than 50 % of its share capital, as imposed by the Law on Companies of the Republic of Lithuania.

The Group and the Company have externally imposed capital requirements from the banks. The following requirements are imposed to secure the repayment of bank borrowings and settlement of finance lease obligations:

(a) ratio of equity (less amounts payable to Invalda AB) to total assets (less amounts payable to Invalda AB) should not be lower than 0.35;
(b) ratio of financial liabilities to equity (less amounts payable to Invalda AB) should not be higher than 0.65.

The management monitors that the Company is in line with the both above mentioned capital requirements. No other capital management instruments are used.

## 24 Capital management (cont'd)

The calculation of equity and assets ratio is presented below:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Assets | 98,503 | 116,061 | 98,419 | 115,972 |
| Loans to related Invalda AB | - | - | - | - |
| **Total assets** | **98,503** | **116,061** | **98,419** | **115,972** |
| Equity | 72,008 | 84,036 | 71,956 | 83,995 |
| Loans to related Invalda AB | - | - | - | - |
| **Total equity** | **72,008** | **84,036** | **71,956** | **83,995** |
| **Total financial liabilities** | **333** | **1,487** | **333** | **1,487** |
| **Equity to assets ratio** | **0.73** | **0.72** | **0.73** | **0.72** |
| **Total equity and financial liabilities** | **0.00** | **0.02** | **0.00** | **0.02** |

As at 31 December 2012 and 2011, the Group and the Company complied with all external requirements established to secure the repayment of bank borrowings.

## 25 Related-party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Company during 2012 and 2011 were: ARI-LUX UAB (the subsidiary), Invalda AB (ultimate shareholder) and all companies controlled by Invalda AB. Transactions with related parties during 2012 and 2011 and the balances as of 31 December 2012 and 2011 were as follows:

*a) Sales and purchases of goods and services and year-end balances arising from these sales/purchases*

| **2012** | **Purchases** | **Sales** | **Receivables** | **Payables** |
|---|---|---|---|---|
| ARI-LUX UAB | 790 | 8 | 1 | 48 |
| Companies controlled by Invalda AB | 438 | 1,126 | 133 | 5 |
| | **1,228** | **1,134** | **134** | **53** |

| **2011** | **Purchases** | **Sales** | **Receivables** | **Payables** |
|---|---|---|---|---|
| ARI-LUX UAB | 566 | 8 | 1 | 12 |
| Companies controlled by Invalda AB | 2,255 | 1,076 | 129 | 116 |
| | **2,821** | **1,084** | **130** | **128** |

## 25 Related party transactions (cont'd)

*b) Loans to Invalda AB*

| | 2012 | 2011 |
|---|---|---|
| At 1 January | - | 41,396 |
| Loans advanced during year | - | 17,006 |
| Loan repayments received | - | (47,280) |
| Interest charged | - | 1,100 |
| Interest received | - | (1,028) |
| Settlement of loan receivable against dividends payable | - | (11,194) |
| At 31 December | - | - |

*c) Loans from Invalda AB*

| | 2012 | 2011 |
|---|---|---|
| At 1 January | - | - |
| Loans received during year | 2,603 | - |
| Loan repayments made | (2,603) | - |
| Interest expense | 1 | - |
| Interest paid | (1) | - |
| At 31 December | - | - |

*d) Losses taken over from companies controlled by the Parent company*

As at 31 December 2012, the Company took over tax losses of LTL 10,158 thousand (LTL 18,076 thousand as at 31 December 2011) from companies whose parent entity is Invalda AB. The Company assumed obligation to pay 15 per cent on the amount of tax losses taken over to companies that transferred those tax losses, therefore liability to related parties amounting to LTL 1,524 thousand (LTL 2,711 thousand as at 31 December 2011) are accounted in other current liabilities.

The discounting effect related to taxable losses taken over by the Company from Invalda AB group companies' amounted to LTL 17 thousand and was accounted in the profit tax expenses.

Remuneration of the management and other payments

The Company's general director, chief accountant and the subsidiary's director are considered to be the key management of the Group.

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Wages, salaries | 695 | 620 | 635 | 561 |
| Social security | 215 | 192 | 197 | 174 |
| | **910** | **812** | **832** | **735** |

The Company does not make any salary payments to the board members. During the ordinary general meeting of shareholders held on 27 April 2012, the decision was made to pay out LTL 3,000 thousand in annual bonuses to the board members from the Company's funds, which were recognised as operating expenses in 2012 (2011 – LTL 795 thousand).

In 2012 and 2011 the management of the Group and the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

## 26 Commitments

Operating lease commitments – Group/Company as a lessee

The Group and the Company have signed contracts of transport equipment and warehouses leases. The lease requirements do not provide any restrictions for additional debts or additional non-current lease for Group or the Company activity which is related with dividends.

Group's or Company's lease expenses related with the lease of transport equipment or warehouses was LTL 682 thousand in 2012 (2011 – LTL 626 thousand).

The future aggregated minimum lease payments under non-cancellable operating leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Not later than 1 year | | | | |
| Lease of transport equipment | 127 | 187 | 127 | 187 |
| Warehouse lease | 304 | 294 | 304 | 294 |
| | 431 | 481 | 431 | 481 |
| Later than 1 year and no later than 5 years | | | | |
| Lease of transport equipment | 116 | 243 | 116 | 243 |
| Warehouse lease | 77 | 381 | 77 | 381 |
| | 193 | 624 | 193 | 624 |
| | **624** | **1,105** | **624** | **1,105** |

## 27 Events after the end of the reporting period

There were no significant events in the Group and the Company after the date of the financial statements which could affect decisions of financial statements' users.