DVARČIONIŲ KERAMIKA AB

Independent Auditor's Report,
Annual Report and Financial Statements
for the year ended 31 December 2008

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Information about the Company

Dvarčionių keramika AB

Company code 110628481

VAT code LT106284811

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

The register, whhere is collected and stored information about the company

State Enterprise Center of Registers of Lithuania, the Republic of the Register of Legal Entities.

Supervisory Board

Artur Kloczko	Chairman of Supervisory Board
Grzegorz Saniawa	Member of Supervisory Board
Miroslaw Wladyslaw Jędrzejczyk	Member of Supervisory Board

Management Board

Marek Ungier	Chairman of Management Board, President
Algirdas Krupavičius	Member of Management Board, Sales and Marketing Director
Mindaugas Bučas	Member of Management Board, Production and Technology Director
Liudmila Suboč	Member of Management Board, Staff Director
Amadeusz Kowalski	Member of Management Board, Opoczno Trade Director

Auditor

„Mokesčių ekspertų biuras“ UAB

Banks

Bankas Hansabankas AB
SEB Vilniaus Bankas AB
Bankas Snoras AB
Šiaulių Bankas AB

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Dvarčionių keramika AB

Report on the Financial Statements

We have audited the accompanying financial statements (page 35 to 62) of Dvarčionių keramika AB, which comprise the balance sheet as of 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dvarčionių keramika AB as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that, as discussed in the Note 30, the comparative 2007 financial information was restated as a result of correction of prior year errors.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2008 (page 5 to 34) 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 2008.

On behalf of Mokesčių ekspertų biuras UAB

Certified auditor Artūras Kapitanovas
Auditor's Certificate No. 000470

Vilnius, Lithuania
31 March 2009

Annual report

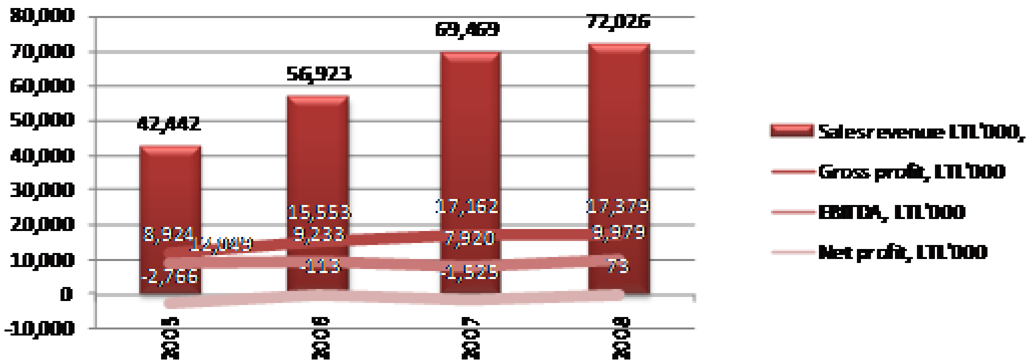
1. Description of the Company‘s economic performance and development, specification of main risk areas, which the Company encounter

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

1.1.1. General overview

Company’s key performance indicators for the period 2005 - 2008:

	2005 Corrected	2006 Corrected	2007	2008
Sales revenue, LTL’000	42.442	56.923	69.469	72.026
Gross profit, LTL’000	12.049	15.553	17.162	17.379
Gross profit margin, %	28 proc.	27 proc.	25 proc.	24 proc.
Operating profit, LTL’000	1.675	1.880	571	2.592
Operating profit margin, %	3,9 proc.	3,3 proc.	0,8 proc.	3,6.proc.
EBITDA, LTL’000	8.924	9.233	7.920	9.979
EBITDA margin, %	21proc.	16 proc.	11 proc.	14 proc.
Net profit, LTL’000	-2.766	-113	-1.525	73
Net profit margin, %	-6,5 proc.	-0,2 proc.	-2,2 proc.	0,1 proc.
Return on assets, % (ROA)	-6,5 proc.	-0,1 proc.	-2,1 proc.	0,1 proc.
Return on equity, % (ROE)	-11,3 proc.	-0,5 proc.	-6,7 proc.	0,3 proc.
Profit per share, LTL	-0,28	-0,01	-0,15	0,01
Total assets, LTL’000	81.659	81.491	73.863	74.935
Shareholders equity, LTL’000	24.507	24.347	22.706	22.779
Non current debt, LTL’000	42.656	36.999	32.939	24.332
Working capital, LTL’000	7.627	7.931	8.008	5.535
Net change in cash flows, LTL’000	250	762	-1.038	-95
Investments, LTL’000	482	1.051	1.893	2.025
Production volume, thousand m2	2.147	2.302	2.247	2.849
Number of employees (end of period)	286	303	285	297
Average salary, LTL/month	1.774	2.101	2.602	2.605



Sales in 2008 grew by 3,7 percent and amounted to 72,026 million Litas. Com. The growth in sales revenue was influenced by increased sales in the Eastern, the Nordic countries, Poland, the Czech Republic.

The Company earned 17,4 million LTL of gross profit and 0,2 million LTL more than in previous year. Gross profit margin in 2008 amounted to 24% (Y2007: 25%). Gross profit margin level is influenced by changes in sales revenue structure, pricing and COGS. Sales prices are dependant on structure of customer and product portfolio, competitors' actions and consumer purchase power. COGS are dependant on level of utilization of production capacity, and changes in prices of separate production costs items.

Operating profit for the year 2008 amounted to 2,6 million LTL (Y2007: 0,6 million LTL). The increase of operating profit was influenced by increase of gross profit and decrease of administrational increase.

Net profit for the year 2007 amounted to 0,1 million LTL. If compared to the previous year, the net profit increased almost by 1,6 million LTL. And was the largest during last four years. The major influence for increase in net profit was steady revenue and more effective costs keeping.

EBITDA in 2008 amounted to 10,0 million LTL and EBITDA margin to 14% and grew up by 2,1 million LTL (26%) compared to the previous year (7,9 million LTL and 11%). Increase in percentage EBITDA margin was influenced by increased revenue and stable operating costs.

Working capital at the end of 2008 decreased by 31% and amounted to 5,5 million LTL when at the end of 2007 was 8,0 million LTL, but liquidity ratio was equal to 1,2 what shows that the liquidity of the company is under control.

Investments for the year 2008 amounted to 2,0 million LTL and it was more than on o,1 million LTL more than the investments for the year 2007 (1,9 million LTL).

Production volume for the 2008 amounted to 2,9 million m2 and there were used whole production capacity.

Number of employees in 2008 grew up from 285 to 297. Major increase in staffing was related with the attending of company orders – production of floor tiles. The increase in number employees was in the art ceramics bay. The average wage for one employee amounted to 2,6 thousand LTL per month and was not increasing by comparison to 2007.

1.2. Specification of main risks which the Company encounter

Economical:

- Growth of construction sector has positive influence on potential of construction materials and products including ceramic tiles;
- Seasonality of construction sector – majority of works are done in warm period, although interior works partly are done also in colder period as well;
- Competition – with growth of producers in Central and Eastern Europe, Russia and Ukraine competition should become even harder than now. However after the Company has been acquired by strong Polish tile producer Opoczno S.A, competitive power of Dvarčionių Keramika significantly increased. After Opoczno S.A has been acquired by the second biggest Polish tile producer Cersanit S.A, Dvarčionių Keramika should strengthen its competitive positions further;
- Substitutes – with rapid growth of producers of construction materials and wood products, there is increasing push down on prices;
- Price of resources – growth of prices for energy (gas), labour, money, transport makes achievement of the Company targets harder;
- Imports – although the Company is the biggest producer in the Baltic states, substantial portion of market share has been filled by imported products. Imports from Central and Eastern Europe and Eastern Asia is constantly growing;
- Custom procedures – for the production sold outside the EU (e.g. CIS), high custom charges are applied, and they worsen the competitiveness of production imported into these markets;
- Certifications – foreign countries as a rule require quality certificates for the production planned to be sold to these markets. Dvarčionių Keramika posses all required certificates, however some of the countries lack continuity in their certification policies which create risk of temporary disruption of exports to these markets. Certification requirements as well as custom charges are means by which governments of foreign countries try to protect local producers.

Technical – technological:

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

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

Ecological:
- The Company operates in accordance with the requirements of ISO 14001 standard.
- Waste which is generated as an outcome of production process is reprocessed by own specialised equipment;
- The Company has not received any fines or sanctions for 2008.

Social:
- Negative migration – young people and experienced specialist emigrate to higher salaries' countries;

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

2.1.1. Sales

In 2008 sales were the biggest in the history of the company and reached 72,9 millions LTL. In comparison to 2007 an increased by 54%. The sales growing tendency occurred for the first three quarters of financial year.

Sales growth led to higher than 2007, the volume of production sold (sq. meters) and higher sell prices.

In 2008, sold nearly 2.6 million. square meter AB Dvarčionių keramika tiles. Square meter sales was 11 percent. higher than in 2007.

The main sales market continues to remain Lithuania (50 per cent. Of all sales), in which sales are made through 13 own shops, as well as through the wholesale network.

Increasing the average sale price per square meter in the sales structure was the influence of the growing weight of segment of collections of medium-price segment, which was introduced already in 2006. On the reporting year was presented new size of floor gres tiles – 450x450.

The growth if quantity was due to focused marketing efforts in important markets and in neighbouring Lithuania - Baltic States, Scandinavia, Belarus and the Kaliningrad region. The company will continue making efforts to maintain its leading position in strategic markets.

Domestic sales

Almost all biggest construction material shops are supplied with the company's production. Also there are 13 own-brand retail shops in all the biggest Lithuanian cities (Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys) and other middle-sized towns. Own-branded shops sells not only company's production, but also Opoczno Trade tiles, Cersanit sanitary equipment, materials for tiles pasting, also the services of professional designer are provided there.

Sales in Lithuania in comparison to 2007 decreased 7% from 38,7 million LTL to 35,8 million LTL. The main reasons for decreasing sales in Lithuania – the slowdown of growth rate of construction and real estate sector in the country.

Export sales

The Company's basic markets for sales are the Baltic states, in 2008 sales in these countries reached 49,2 million LTL and decreased in 4,1 million LTL in comparison with 2007 (8%) after 2007 10,3 million LTL (24 per cent) growth compared with 2006 (43,0 million LTL). Sales in Latvia and Estonia declined 9 percent. compared to 2007 and reached 13,3 million.

Exports to Belarus increased by 58 percent. and exceeded 1,3 million during the 2008.

Sales in Russia, after several years decrease started to increase in 2007 in 9 percent. up to 3,2 million LTL and the reference year has increased by 63 percent up to 5,3 million LT due to increased sales in the Kaliningrad region.

Sales in Ukraine in 2008 rose 6 percent and reached 3,9 million LTL.

2.1.2. Supply and logistics

The basic raw materials, packaging materials supplies for AB Dvarčionių keramika, AB several suppliers. This reduces the dependence on suppliers, and enables a bargain for more favourable conditions for cooperation. Other specific (once can not be used two different compositions) materials, such as feldspar and clay, which is supplied by only one supplier, is considered safe reserve for a 4-week.

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

Reducing the risk of suppliers, with the main of them are signed contracts for 12 months, is chosen and explored suppliers of alternative raw materials, materials, services. The list of main suppliers is being confirmed twice a year, which is drawn up taking into account the economic environment changes.

The suppliers is being selected according into account in the reliability of the raw materials, materials delivery and service quality, transportation costs, environmental requirements, financial results, reporting of production conditions and the recommendations of the partners. New designs of products for Dvarčionių Keramika, AB supplied throughout the world of ceramics well known and recognized companies: Iris-group, Fritta S.L., Ferro S.L. With these companies, the company has been working for more than 6 years. Long-term co-operation can save you a lot of time introducing new, advanced products, for the exchange of relevant information, improving the production and logistics processes.
With gas and electricity suppliers has signed a long-term cooperation agreements.

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

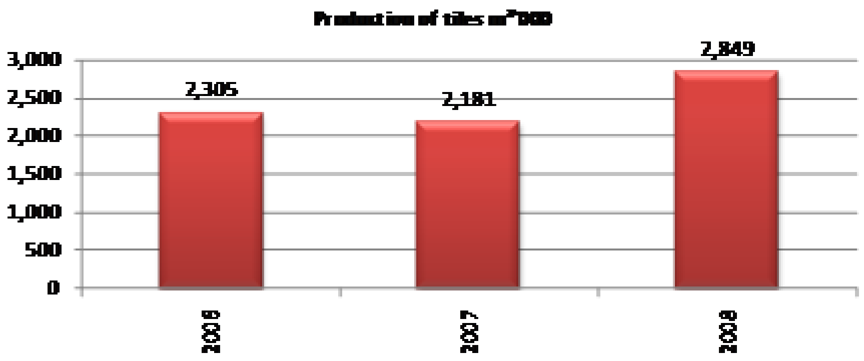
In 2008 was improved stores farm work (bought new trucks, updated software, warehouses automated with scanners), which increased the efficiency of logistics processes, the flexibility of company to respond rapidly to market changes.

In close cooperation with other supply departments of the group companies, the company managed to improve the conditions of the majority of the purchase of raw materials, materials, other products, buying at a higher turnaround.

2.1.3. Production

Production volume

In 2008 Dvarčioniu keramika, AB production volume amounted 2,849 thousand square meters, when on 2007 production volume was 2,181 thousand square meters. 2006 production volume was 2,305 thousand square meters. Relative value: wall tiles 49%, gres tiles – 51%



Optimization of the production process

In 2008 Dvarčionių Keramika, AB acquired a new type of Italian decoration equipment, which improved the quality of tile decoration, increased the product range of exclusive design, as well as the use of these devices has increased productivity by 20% and percentage quantity of I choice increase in 4%. The investment cost of 358,000 LTL. Manufacturer TECNOITALIA.

Innovations to new products

In 2008 was presented new the gres floor tile size - 450x450 mm. Has also continued development of new collections. The reference year were presented 7 new collection:

Wall tiles	200x250	Vesta	4 types
Wall tiles	250x400	Dioro, Travertino	5 types
Gres tiles	297x297	Dioro, Travertino	4 types
Gres tiles	450x450	Struttura, Plaza, Code, Textile	18 types

2.1.4. Management of quality and environment issues

Quality and Environment Safety management system

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

Quality and Environment Safety foreign auditing and results

On August, 2008 Det Norske Veritas UAB performed periodic ISO 9001 & ISO 14001 quality and environment safety management foreign audit and issued certificates No. 37667-2008-AQ-FIN-FINAS, No. 37669-2008-AE-FIN-FINAS.

Certified Experimental Lab

Dvarčionių keramika AB Certified Experimental Lab certified in 1988.

Supervision audit performed by National certification bureau in December, 2008 certified Lab conformity to renewed EN ISO/IEC 17025:2006 standard requirements. The Lab received certified certification for the period of July 2009.
The test laboratory of Dvarčionių keramika, AB is accredited and re-issued a new accreditation certificate number. LA.01.025. The accreditation of the laboratory provides the right to issue their own in products EC declaration of conformity according to LST EN 14411 standard.

During 2008 Dvarčionių keramika AB Certified experimental lab issued 31 experimental protocols and took part in inter-laboratory comparative experiments together with VGTU Thermo insulation institute, Construction material laboratory.

2.1.5. Human resources

Employees

On the 31st of December, 2008, there were 297 employees in the company when 285 - at the end of 2007.

Distribution of Employee job positions at Dvarčionių keramika AB:

Employee education

	Workforce 31.12.007	Workforce 31.12.2008
University	71	86
College	68	64
Professional schools	120	109
High school	26	38
TOTAL:	**285**	**297**

Distribution of Employee job positions

	Workforce 31.12.007	Workforce 31.12.2008
Managers	23	23
Specialist	97	92
Workers	165	182
TOTAL:	**285**	**297**

More than 51% of entire company employees work over 5 years within the company.

Collective agreement

Collective agreements defines relationships employees, employed by the company on the employment contracts, agreements between Union and the Company relating to working, payment, administration, safety, working and the off days schedules as well as other social and economical conditions.
Company's management cooperates with the trade union, provide information, discussing the company's business issues.

Training & Development

The essential for company successful activities – creative and continuously developed employees, fearing no responsibility for the decisions taken and continuous search for the best and new work implementation forms, effective problem solving ways. Employee training and qualification is based on company Quality management system ISO 9001 procedures. 28% of company employees (2007-34%) took part and been trained.
Not only open trainings are offered but also in house trainings are popular for sharing the professional knowledge within company sectors.

Work and Health safety

There are suitable and safe working conditions in the company. There weren’t serious accidents at work places during 2008.

3. Links and extra clarifications about data in financial statement

As reported in the financial statements

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

Authorized capital registered in the register of enterprises – 19.810.920 LTL
Capital is divided by 9.905.460 simple nominal shares.
Par value of 1 share - 2 LTL
All shares of company are completely paid.

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

No shares were acquired or transferred during 2008

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

No shares were acquired or transferred during 2008

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

None

8. Information about company’s branches and agencies

The Company don’t have branches or representative offices

9. Important events for the company’s during the accountable financial year

There were no important events since the end of the preceding financial year

10. Company’s activity plans and forecasts

The Company does not announce its plans and forecasts.

11. Information about the research and the development activity.

The Company has not conducted any research and development activity.

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

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

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

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

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

performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.		is Supervisory Council.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Management Board comprise of 5 members. Supervisory Council comprise of 3 members, which representatives of main shareholder Cersanit S.A, holding 92,25% of shares.
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.	Yes	The performance of the Supervisory Council is outlined in the Regalement. The Regalement specifies the duration of service of member of the Supervisory Council (i.e. 4 years). It is not forbidden to re-elect the member of the Supervisory Council.
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	The Company has Supervisory Council. The Chairman of the Supervisory Board has not been the chief executive officer of the Company. The Chairman of the Management Board is chief executive of the Company.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting

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 mechanism of construction of the Supervisory Council enables to ensure objective and fair monitoring of the company's management bodies. Only a person having adequate qualification (in the specific industry, or experience in management, law and etc.) can be elected to the member of the Supervisory Council.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	The Company keeps in line with this recommendation.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	The Company keeps in line with this recommendation.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	The Company's collegial body possesses the qualifications necessary in their field of activity

3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	New members of the Supervisory Council are provided an opportunity to get acquainted with internal documentation of the Company, business processes. This knowledge is updated periodically, because the Management Board provides the analysis of the performance.
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	Until now the have been no practice of valuating the independence of the member of the Supervisory Council. The Company also has not specified the notion of 'sufficiency of independence' of the member of Supervisory Council.
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: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 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	No	The Company's financial statements disclose the related parties' transactions as required by the international financial reporting standards. Transactions between the related parties are made in line with arm's length principle. No other means to valuate the independence of members of governing bodies are applied because they are not specified in any of the internal documents of the Company.

of deferred compensations); 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); 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; 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; 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; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		The Company has not specified the determination of what constitutes independence.

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The Company also has not specified the notion of 'sufficiency of independence' of the member of Supervisory Council.
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 has not applied practice of valuating independence of the members of the Supervisory Board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	Members of the Supervisory Board are not paid for their service, therefore this provision is not applicable to the Company.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **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 Supervisory Board monitors and controls the activities of the Company, organizes regular meetings, on which the Management Boards accounts for the results; also provides recommendations for improvement of efficiencies.
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	Yes	The Company keeps in line with the recommendations.

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

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.	Yes	The members of the Supervisory Board have certain influence on various aspects of the Company's activities. They control the Management Board, can recall any decision by the Management Board, if it is not in the best interests of the Company, including adjustments regarding improper level of remuneration.
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 Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.
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	No	The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.

individuals.		
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 Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.
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 Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • 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; • 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; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management.	No	The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.

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.		
4.13. Remuneration Committee.	No	The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.
4.13.1. Key functions of the remuneration committee should be the following: • 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; • 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; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • 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); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.		

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • 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.		
4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • 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); • 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; • 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; • 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	No	The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.

and make recommendations on required actions in such situations; • 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; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 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. 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. 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. 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. 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.	Yes	The collegial body conducts the assessment of its activities.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company keeps in line with the recommendation.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the	Yes	The Company keeps in line with the recommendation.

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.		
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 keeps in line with the 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.	Yes	The Company keeps in line with the recommendation.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The company's capital consists only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company keeps in line with the recommendation.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are	Yes	Transactions are made on the basis prescribed in the Company's Articles.

discussed.		
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	Procedures of convening and conducting a general shareholders' meeting ensure equal opportunities for the shareholders to effectively participate at the meetings and not prejudice the rights and interests of the shareholders.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents 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	Resolutions are publicly announced only using Stock exchange information system and in press. Althout the resolutions are announced in the web page 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	The Company keeps in line with recommendation.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	Yes	The Company keeps in line with recommendation.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company tries to stay in line with the recommendation.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, 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.	Not applicable	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Not applicable	There were no such cases in 2008.
Principle VIII: Company's remuneration policy **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	No	No such practice has been used in the Company.

the company's website.		
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	No such practice has been used in the Company.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	No such practice has been used in the Company.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	No such practice has been used in the Company.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	No such practice has been used in the Company.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least	No	The Company discloses general payments to the Board and Council in the explanatory notes of the financial statements.

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.		
8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • 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; • The remuneration and advantages received from any undertaking belonging to the same group; • 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; • 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; • 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; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.		
8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • 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; • 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; • All changes in the terms and conditions of existing share options occurring during the financial year.		
8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors’ accrued benefits under that scheme during the relevant financial		

year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.		
8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	No such practice has been used in the Company.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • 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.	No	
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	No	

8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	No	
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.	No	
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The corporate governance framework assures that the rights of stakeholders that are protected by law are respected.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	

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.

10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The Company keeps in line with recommendation.
10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	The Company keeps in line with recommendation.
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.	Yes	The Company keeps in line with recommendation.

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 Company keeps in line with recommendation.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company provides information in English and Lithuanian, both at the same time. Upon receipt, information is announced in the stock exchange information system. The Company tries to announce essential information in non trade time – before or after trade sessions. No comments, interview or by any other means essential information is provided before it becomes public through official stock exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company sends information to the Stock exchange and Securities Commission, and later with some comments to the mass media. At the same time information is placed in the official website of the Company. The Company provides information in English and Lithuanian.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	No	The Company has updated its web site and announces information specified in the clause 10,7

Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	Candidate audit company is proposed by the Management Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	Audit company has not provided any service except audit itself. Therefore no additional fees have been paid.

President
Marek Ungier

31 March 2009

BALANCE SHEET

	Notes	2008	2007(Restated, Note 30)
ASSETS			
Non-current assets			
Tangible assets	**4**	41.223	47.249
Intangible assets	**5**	53	88
Other non-current assets		10	-
Investments in subsidiaries and associates	**6**	300	300
Total non-current assets		**41.576**	**47.637**
Current assets			
Cash and cash equivalents	**7**	216	311
Inventories	**8**	24.798	18.865
Receivables and other current assets	**9**	8.335	7.050
Total current assets		**33.349**	**26.226**
TOTAL ASSETS		**74.935**	**73.863**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**10**	19.811	19.811
Legal reserve	**10**	125	125
Revaluation reserve		3.594	3.945
Retained earnings (accumulated loss)		-751	-1.175
Total capital and reserves		**22.779**	**22.706**
Non-current liabilities			
Borrowings	**11**	23.029	31.638
Finance lease liabilities	**12**	396	68
Deferred tax liabilities	**24**	907	1.233
Total non-current liabilities		**24.332**	**32.939**
Current liabilities			
Borrowings	**11**	10.749	3.188
Finance lease liabilities	**12**	213	26
Promissory notes		-	-
Factoring notes		47	84
Trade payables	**14**	14.097	12.315
Advances received		260	313
Other payables and accrued expenses	**15**	2.458	2.292
Total current liabilities		**27.824**	**18.218**
Total liabilities		**52.156**	**51.157**
TOTAL EQUITY AND LIABILITIES		**74.935**	**73.863**

The accompanying explanatory notes are an integral part of these financial statements.

These financial statements were approved on 31 March 2009 and signed by:

President	Chief Accountant
Marek Ungier	Vanda Kalpokienė

INCOME STATEMENT

	Notes	2008	2007(Restated, Note 30)
Sales	**17**	72.026	69.469
Cost of sales	**18**	(54.647)	(52.307)
GROSS PROFIT		**17.379**	**17.162**
Selling expenses	**19**	(11.024)	(10.599)
Administrative expenses	**20**	(4.323)	(6.308)
Other income, net	**21**	560	316
Reversal of fixed assets impairment losses	**2**	-	-
Interest income		3	6
Interest expense	**22**	(2.384)	(2.313)
Net foreign exchange loss		10	(17)
Other finance income, net		(3)	(3)
LOSS BEFORE INCOME TAX		**218**	**(1.756)**
Income tax	**23**	(145)	231
NET PROFIT (LOSS) FOR THE YEAR		**73**	**(1.525)**
Basic and diluted earnings per share (in LTL)	**24**	**0.01**	**(0.15)**

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President Marek Ungier	Chief Accountant Vanda Kalpokienė

STATEMENT OF CHANGES IN EQUITY

	Share capital	Legal reserve	Revaluation reserve	Retained earnings (accumulated loss)	Total
At 31 December 2004	**49.527**	**125**	**1.548**	**(27.565)**	**23.635**
Fixed assets revaluation, net of deferred tax liabilities	-	-	3.638	-	3.638
Depreciation of revaluated assets, net of deferred tax	-	-	(322)	322	-
Net loss for the year	-	-	-	(2.766)	(2.766)
At 31 December 2005	**49.527**	**125**	**4.864**	**(30.009)**	**24.507**
Adjustment				**(47)**	**(47)**
At 31 December 2005 Restated, Note 30)	**49.527**	**125**	**4.864**	**(30.056)**	**24.460**
Reduction in share capital (note10)	(29.716)	-	-	29,716	-
Depreciation of revaluated assets, net of deferred tax	-	-	(507)	507	-
Net profit for the year	-	-	-	(229)	(229)
At 31 December 2006 Restated, Note 30)	**19.811**	**125**	**4.357**	**(62)**	**24.231**
Depreciation of revaluated assets, net of deferred tax	**-**	**-**	(412)	412	-
Net profit for the year	**-**	**-**	-	(1.525)	(1.525)
At 31 December 2007 Restated, Note 30)	**19.811**	**125**	**3.945**	**(1.175)**	**22.706**
Depreciation of revaluated assets, net of deferred tax	**-**	**-**	(351)	351	-
Net profit for the year	**-**	**-**	-	73	73
At 31 December 2008	**19.811**	**125**	**3.594**	**(751)**	**22.779**

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President Marek Ungier	Chief Accountant Vanda Kalpokienė

STATEMENT OF CASH FLOW

	2008	2007 (Restated, Note 30)
OPERATING ACTIVITIES		
Loss before income tax	**73**	**(1.525)**
Adjustments for:		
Income tax	145	(231)
Depreciation and amortization	7.387	7.349
Net result of disposal and write-off of fixed assets	83	29
Impairment loss (reversal) recognised on trade receivables	96	-
Reversal of inventory to net realizable value	(239)	161
Interest, net	2.384	2.310
Net foreign exchange loss	(10)	17
Other changes		
	9.919	**8.110**
Changes in operating assets and liabilities:		
Increase in receivables and other current assets	(1.391)	(115)
Increase inventories	(5.694)	775
Increase in payables and other current liabilities	1.644	(174)
	4.478	**8.596**
Interest paid	(2.304)	(2.236)
Interest received	-	6
Income taxes paid	(181)	(43)
Net cash from operating activities	**1.993**	**6.323**
INVESTING ACTIVITIES		
Purchases of fixed tangible and intangible assets	(1440)	(1.927)
Proceeds on from disposal of fixed tangible assets	637	202
Net cash used in investing activities	**(803)**	**(1.725)**
FINANCING ACTIVITIES		
Proceeds from (repayments of) borrowings, net	(1.048)	(5.608)
Repayments of promissory notes	-	-
Repayments of finance lease	(200)	(84)
Factoring financing decrease	(37)	56
Net cash used financing activities	**(1285)**	**(5.636)**
Net increase in cash	**(95)**	**(1.038)**
CASH AT THE BEGGINING OF THE YEAR	311	1.349
CASH AT THE END OF THE YEAR	**216**	**311**

The accompanying notes are an integral part of these financial statements.

These financial statements were approved on 31 March 2009 and signed by:

President Marek Ungier	Chief Accountant Vanda Kalpokienė

EXPLANATORY NOTES

1. General Information

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

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

At 31 December 2008 there were 297 employees in the Company (2007: 285).

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

The accompanying financial statements are presented in the national currency of Lithuania the Litas (LTL).

2. *Adoption of new and revised International Financial Reporting Standards*

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions;*

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets.

Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Company did not have financial instruments caught by these amendments.

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions.*

The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Company has not issued instruments caught by this interpretation.

Standards issued but not yet effective:

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009).

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement.

In November 2008, the IASB adopted changes to IFRS 1. The changes to this standard must be applied for the first time in the fiscal year which begins on or after July 1, 2009. The changed standard has not yet been endorsed by the European Union.

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Company, as the Company does not have share-based payments.

Amendments to IFRS 3 *Business Combinations and IAS 27 Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009, but not earlier than will be endorsed by EU).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*.

IFRS 8 *Operating Segments* (effective for financial years beginning on or after 1 January 2009).

The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 *Segment Reporting*. The Company expects that operating segments, presented with reference IFRS 8, will not differ from operating segments presented according to IAS 14 significantly .

Amendment to IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Company is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009).

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation *(*effective for financial years beginning on or after 1 January 2009).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Company, as the Company has not issued such instruments.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items *(*effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of an one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

Improvements to IFRSs.

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard, most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements*. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.

- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period*. Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term “net selling price” with “fair value less costs to sell”.
- *IAS 18 Revenue.* Replacement of the term ‘direct costs’ with ‘transaction costs’ as defined in IAS 39.
- *IAS 19 Employee Benefits.* Revised the definition of ‘past service costs’, ‘return on plan assets’ and ‘short term’ and ‘other long-term’ employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.* Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements.* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.
- *IAS 29 Financial Reporting in Hyperinflationary Economies.* Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- *IAS 34 Interim Financial Reporting.* Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 Impairment of Assets.* When discounted cash flows are used to estimate ‘fair value less cost to sell’ additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’.
- IAS 38 *Intangible Assets*. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- *IAS 39 Financial Instruments: Recognition and Measurement.* Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the ‘fair value through profit or loss’ classification after initial recognition. Removed the reference in IAS 39 to a ‘segment’ when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- *IAS 40 Investment Property.* Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- *IAS 41 Agriculture.* Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term ‘point-of-sale costs’ with ‘costs to sell’.

IFRIC 13 *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008).

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Company does not maintain customer loyalty programmes, therefore, the interpretation will have no impact on the financial position or performance of the Company.

IFRIC 15 *Agreement for the Construction of Real Estate* (effective for financial years beginning on or after 1 January 2009, but not earlier than will be endorsed by EU).

The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Company expects that this interpretation will have no impact on the financial position or performance of the Company.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for financial years beginning on or after 1 October 2008, but not earlier than will be endorsed by EU).

The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the financial statements because the Company does not have hedges of net investments.

IFRIC 17 *Distributions of Non-cash Assets to Owners (*effective for financial years beginning on or after 1 July 2009, but not earlier than will be endorsed by EU).

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the financial statements because the Company does not distribute non-cash assets to owners.

The Company plan to adopt the respective Standards and Interpretations at their effective date, provided. The Company expects that the adoption of the pronouncements listed above once they become effective will have no significant impact on the Company's financial statements.

3. Significant Accounting Policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of investment assets, tangible fixed assets and financial instrument.

The principal accounting policies adopted are set out below.

Investments in subsidiaries and associates

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

Tangible Fixed Assets

Tangible fixed assets are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluated amount is the fair value at the date of the revaluation, which was carried out in 30 April 2005 by independent appraisers.

Depreciation is computed using the straight-line method over the estimated useful lives of the related asset. Revalued assets are depreciated over their remaining lives.

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

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

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

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

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

Intangible Assets

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

Impairment of Tangible and Intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Emission rights

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

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

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

In case the Company is 'short' of allowances, the liability is recognised on the balance sheet being the best estimate of the expenditure (economic resources) required to settle the emission obligation.

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

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

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

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

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

Financial assets
Financial assets are classified into the following specified categories: financial assets as ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity investments’, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

Financial liabilities
A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable, or a derivative or non-derivative contract that will or may be settled in the Company's own equity instruments.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

A financial liability measured at fair value through profit or loss is an instrument that is either held for trading purposes or is designated at fair value upon initial recognition. Derivatives are categorized as held for trading unless they are designated and effective hedges, or derivative financial guarantee contracts.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Fair value of financial instruments
Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis. Where, in the opinion of the management, that the carrying amounts of financial assets and financial liabilities recorded at amortised cost differs materially from their carrying value, such fair values are separately disclosed in the notes to the financial statements.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign Currencies
Transactions denominated in foreign currency other than Litas (LTL) are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.
The applicable rates used for the principal currencies as of 31 December were as follows:

	2008	2007
USD	2,4507	2,3572
EUR	3.4528	3.4528
PLN	0,83326	0,9571

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

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

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

• it is probable that the economic benefits associated with the transaction will flow to the entity; and

• the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. In 2008 the standard income tax rate in Lithuania was 15%. In 2006 and 2007 year the Provisional Social Tax Law was into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies had to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007.

Deferred tax
Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or asset realized.

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

Current and deferred tax for the period
Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

Related parties
Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity, 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.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4. Fixed tangible assets

At 31 December fixed tangible assets consisted of the following:

	Buildings	Machinery and equipment	Vehicles	Other assets	Construction in progress	Total
Revaluated amount						
At 01January 2006	48.102	73.076	1.425	1.960	668	125.231
Additions	-	601	148	165	137	1.051
Transfers	-	264	-	(11)	(253)	-
Disposals	(15)	(15)	(31)	(10)	-	(71)
Write off	(8.642)	(3.948)	-	(82)	-	(12.672)
Transfers	-	(2.262)	(191)	2.453	-	-
At 31 December 2006	**39.445**	**67.452**	**1.351**	**4.486**	**805**	**113.539**
Additions	254	1.120	-	519	-	1.893
Disposals	-	(16)	(237)	(7)	-	(260)
Write off	-	(77)	-	(29)	-	(106)
Transfers	-	-	-	104	(104)	-
Transfers	-	-	-	-	(68)	(68)
At 31 December 2007	**39.699**	**68.479**	**1.114**	**5.073**	**633**	**114.998**
Additions	-	1.603	91	331	-	2.025
Disposals	-	(792)	(89)	(5)	-	886
Write off	-	(52)	-	(48)	-	100
Transfers	-	-	-	-	-	-
At 31 December 2008	**39.699**	**69.238**	**1.116**	**5.351**	**-**	**116.037**
Accumulated depreciation and impairment						
At 01 January 2006	19.831	43.295	862	1.437	633	66.058
Charge for the year	1.919	5.105	111	156	-	7.291
Write off	(8.642)	(3.946)	-	(82)	-	(12.670)
Disposals	(1)	(12)	(12)	(4)	-	(29)
Transfers	-	(1.380)	(191)	1.571	-	-
At 31 December 2006	**13.107**	**43.062**	**770**	**3078**	**633**	**60.650**
Charge for the year	1.929	4.947	104	313	-	7.293
Disposals	-	(16)	(88)	(2)	-	(106)
Write off	-	(61)	-	(27)	-	(88)
Transfers	-	(1)	-	1	-	-
At 31 December 2007	**15.036**	**47.931**	**786**	**3.363**	**633**	**67.749**
Charge for the year	1.942	4.959	71	359	-	7.331
Disposals	-	(153)	(50)	(5)	-	(208)
Write off	-	(35)	-	(23)	-	(58)
Transfers	-	-	-	-	-	-
At 31 December 2008	**15.036**	**47.931**	**786**	**3.363**	**633**	**67.749**
Carrying amount						
At 31 December 2007	**24.663**	**20.548**	**328**	**1.710**	**-**	**47.249**
At 31 December 2008	**22.721**	**16.536**	**309**	**1.657**	**-**	**41.223**

All tangible fixed assets are held for the Company‘s own use.

Depreciation expense has been charged in cost of sales LTL‘000 6515 (At 31 December 2007 – LTL‘000 6493), in selling costs LTL‘000 552 (At 31 December 2007 – LTL‘000 536), and in administrative expenses LTL‘000 320 (At 31 December 2007 – LTL‘000 338).

The Company's tangible assets were last revalued on 30 April 2005 by independent appraisers. Valuations were made on the basis of market value. The revaluation surplus net of applicable deferred income taxes was credited to revaluation reserve in shareholders' equity.

At 31 December 2008 the carrying amount of the vehicles being acquired under finance lease contracts were LTL'000 691 (At 31 December 2007 – LTL'000 78).

At 31 December the carrying amount of the tangible fixed assets, pledged to Bankas „Hansabankas" AB as security for credit facilities granted (Note 11) consisted of the following:

	2008	2007
Buildings	22.721	24.663
Machinery and equipment	16.536	20.548
Total	**39.257**	**45.211**

5. Intangible assets

At 31 December intangible fixed assets consisted of the following:

	Software	Total
Cost		
At 1 January 2006	453	453
Additions	114	114
Write off	(15)	(15)
At 31 December 2006	552	552
Additions	34	34
Write off	(190)	(190)
At 31 December 2007	**396**	**396**
Additions	21	21
Write off	-	-
At 31 December 2007	**417**	**417**
Accumulated amortisation		
At 1 January 2006	394	394
Amortisation expense	62	62
Write off	(14)	(14)
At 31 December 2006	442	442
Amortisation expense	56	56
Write off	(190)	(190)
At 31 December 2007	**308**	**308**
Amortisation expense	56	56
Write off	-	-
At 31 December 2007	**364**	**364**
Carrying amount		
At 31 December 2007	**88**	**88**
At 31 December 2008	**53**	**53**

Amortization expense has been included in selling and administrative expenses.

6. Investments in subsidiaries and associates

At 31 December investments in subsidiaries and associates consisted of the following:

	2008		2007(Restated, Note 30)	
	Carrying amount	Ownership, %	Carrying amount	Ownership, %
Dvarcioniu keramika SIA (Riga, Latvia)	14	100.0	14	100.0
Baltijos keramika UAB	300	30.6	300	30.6
	314		**314**	
Impairment losses	(14)		(14)	
Total	**300**		**300**	

Subsidiary Dvarcioniu keramika SIA (Riga, Latvia) is under liquidation, therefore investment is reduced to zero.

7. Cash and cash equivalents

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

	2008	2007
Cash at bank	129	102
Cash on hand	31	15
Cash in transit	56	194
Total	**216**	**311**

Cash at AB Bankas Hansabankas accounts and future cash inflows were pledged to secure the credit facilities granted by AB Bankas Hansabankas. At of 31 December 2008 the cash balances of the Company in the pledged accounts amounted to LTL‘000 101 (Note 11).

8. Inventories

At 31 December inventories consisted of the following:

	2008	2007
Raw materials and complimentary materials	4.945	3.813
Work in progress	348	323
Finished goods	16.147	11.208
Goods for resale	3.684	4.087
Total	**25.124**	**19.431**
Less: write-off to net realizable value	(326)	(566)
Total	**24.798**	**18.865**

At 31 December 2008 and 2007 inventories, including raw and auxiliary materials, work in progress, finished goods and goods for resale in the amount of LTL‘000 10,000 have been pledged to secure borrowings of the Company (note 11).

At 31 December 2008 the cost of inventories has been reduced to net realisable value by LTL‘000 326 (at of 31 December 2007: LTL‘000 566). The reversal of write-off of inventories to net realizable value are recognised in operating expenses.

9. Receivables and other current assets

At 31 December amounts receivable consisted of the following:

	2008	2007
Trade receivables	8.030	6.879
Prepayments to suppliers	81	151
Prepaid expenses	234	31
Other amounts receivable	103	6
	8.448	**7.067**
Less: allowance for doubtful debts	(113)	(17)
Total:	**8.335**	**7.050**

Movements in the allowance for doubtful debts for the year ended 31 December were as follows:

	2008	2007
Allowance at the beginning of the year	17	366
Increase during the year	113	17
Write-off	17	366
Allowance at the end of the year	**113**	**17**

10. Share capital and legal reserve

At 31 December 2008 issued share capital of the Company consisted of 9.905.460 ordinary shares at a par value of LTL 2 each (At 31 December 2005: LTL 5 each). On 1 July 2006 the Company held extraordinary shareholders' meeting which took a decision to reduce par value of ordinary shares from 5 LTL to 2 LTL thus covering part of accumulated losses. The reduction was made in association with a procedure of restoration capital adequacy.

All shares are outstanding and fully paid. Shareholders have right to get dividends, when they are announced.

The main shareholders of the Company have changed in December, 2007. The major shareholder Polish enterprise Opoczno S.A. (Poland) having a major part of the shares has acquired additional 17,97 per cent and held 78,22 per cent . In May, 2008 Opoczno S.A. was merged into Cersanit S.A and thereby Cersanit S.A acquired AB “Dvarčionių keramika” shares The structure of shareholders is as follows:

	2008			2007		
Shareholders	**Number of shares**	**Nominal share value**	**%**	**Number of shares**	**Nominal share value**	**%**
Opoczno S.A.	-	-	-	7.748.177	15.496.354	78,22
Cersanit S.A	9.137.787	-	92.25	-	-	-
Others	767.673	-	7.75	2.157.283	4.314.566	21,78
Total	**9.905.460**	**19.810.920**	**100,00**	**9.905.460**	**19.810.920**	**100,00**

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

11. Borrowings

At 31 December the borrowings were repayable as follows:

	2008	2007
Within one year :	10.749	3.188
In the second year	12.282	8.608
In the third to fifth years inclusive	10.747	18.424
After five years	-	4.606
	33.778	**34.826**
Less: amount due for settlement within one year	(10.749)	(3.188)
Amount due for settlement after one year	**23.029**	**31.638**

All borrowings are denominated in EUR.

On 7 September 2005 Bankas Hansabankas AB granted a loan to the Company in the amount of EUR'000 12,598 (LTL'000 43,500), the maturity date of which is 7 September 2013. For the year ended 31 December 2008 the effective interest was 4.873 percent.

The loan is secured by buildings, machinery and equipment (Note 4), land lease right (Note 13), inventories (Note 8), cash in bank accounts (Note 7) and issued guarantee of Opoczno S.A of amount LTL'000 10.000. The guarantee is interest bearing of 0.8% per annum.

The management considers that the borrowings recorded at amortised cost in the financial statements approximate their fair values.

12. Finance lease liabilities

At 31 December future minimum finance leases were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2008	**2007**	**2008**	**2007**
Within one year	240	30	213	26
In the second to fifth year inclusive	451	104	396	68
Total	**691**	**134**	**609**	**94**
Less: future finance charges	(82)	(40)	-	-
Present value of lease obligations	**609**	**94**	**609**	**94**

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

13. Operating lease

<u>The Company as lessee</u>

	2007	2006
Shops lease	53	59
Vehicle lease	40	21
Land lease	19	19
Present value of non-cancellable lease liabilities	**112**	**99**
Within one year	112	99
In the second to fifth year inclusive	-	-

The non-cancellable lease liabilities are related with rental agreements of shops, land and vehicle.

The Company leases a land plot of 10.7 ha situated in Dvarčionys, suburbs of Vilnius, from the state. The land lease matures in 2097. There are no buy out possibilities, included in the land lease contract. In addition, minor land plots are leased in Kaunas, Klaipeda, Siauliai, Utena and clay quarry in Ukmerge.

The land lease rights has been pledged to AB Hansabankas for the financial facility granted (Note 11).

14. Trade payables

At 31 December trade payables consisted of the following:

	2008	2007
Amounts payable:		
Domestic	3.851	3.937
Foreign	10.246	8.378
	14.097	**12.315**
Less: amount due for settlement within one year	(14.097)	(12.315)
Amount due for settlement after one year	**-**	**-**

15. Other payables and accrued expenses

At 31 December 2006 other payables and accrued expenses consisted of the following:

	2008	2007
Vacation reserve	798	660
Taxes payables	784	731
Salaries payable	623	585
Accrued interest	160	72
Other payables	93	244
Total	**2.458**	**2.292**

16. Financial asset and liabilities, risk management

Credit risk

The credit risk of the Company related to the accounts receivable is rather limited because the main buyers are reliable customers. The Company has no significant credit risk concentration, because credit risks are allocated to numerous customers.

The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The liquidity risk is managed by planning the cash flows of the Company. In order to minimize the liquidity risk, cash flow forecasts are prepared. Overdraft and credit line agreements are used to manage the difference between the risks of late collection of receivables and the short-term cash flows (proceeds and payments).

The following table below discloses the Company's contractual maturity for their non-derivatives financial liabilities. These tables have been drawn up based on the undiscounted cash flows of financial liabilities based on earlier date on which the Company can be required to pay. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Trade payables due date terms by agreements:

	0-30 d. LTL'000	31-60 d. LTL'000	61-90 d. LTL'000	m ore than 90 d. LTL'000	Total LTL'000
31 December 2007	8.484	2.018	1.139	674	12.315
31 December 2008	10.521	1.294	787	1.495	14.097

The following table details the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

Trade and other receivables due date terms by agreements:

	0-30 d. LTL'000	31-60 d. LTL'000	61-90 d. LTL'000	m ore than 90 d. LTL'000	Total LTL'000
31 December 2007	6.750	201	18	81	7.050
31 December 2008	6.711	1.215	166	243	8.335

The Company's liquidity and quick ratios as of 31 December 2008 were 1,20 and 0,31, respectively (2007 - 1,44 and 0,40).

Interest rate risk

The income and cash flows of the Company are not exposed significantly to the fluctuation of the market interest rate. The borrowings issued of floating interest rates expose the Company to cash flow interest rate risk.

The Company is exposed to EUR Libor increase risk on the loan granted by Bankas Hansabankas AB. The exposure to interest rate risk is related to the borrowings in the amount of LTL'000 33.778. The interest rate base is 3 months EUR Libor.

As of 31 December 2008 the company did not use any financial hedging instruments against interest rate risk.

Foreign exchange risk

The Companies do not use any financial instruments facilitating control over the foreign exchange risk.

Fairvalue of financial instruments

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 flovv models and option pricing models as appropriate.

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 and other accounts payable and current borrowings approximates fairvalue.

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 vvith variable and fixed interest rates approximates their carrying amounts.

17. Sales

Business segments

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments. The operations of the Company are wholesale and retail of ceramic tiles.

	Wholesale		**Retail**		**Total**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Sales of finished goods	37.084	29.677	11.058	12.293	48.142	41.970
Sales of goods for resale	16.447	17.565	6.954	9.101	23.401	26.666
Sales of materials	119	376	-	-	119	376
Sales of services	335	450	29	7	365	457
Total sales	**53.985**	**48.068**	**18.041**	**21.401**	**72.026**	**69.469**
Segment expenses	(43.554)	(39.068)	(11.093)	(13.239)	(54.647)	(52.307)
Segment result	**10.431**	**9.000**	**6.948**	**8.162**	**17.379**	**17.162**
Unallocated expenses	-	-	-	-	(15.375)	(16.907)
Unallocated other income, net					588	316
Operating profit	**-**	**-**	**-**	**-**	**2.592**	**571**
Interest expenses	-	-	-	-	(2.384)	(2.313)
Other financial expenses, net					10	(14)
Income tax	-	-	-	-	(145)	231
Net profit for the year	**-**	**-**	**-**	**-**	**73**	**(1.525)**
Segment assets	18.655	22.637	6.514	3.034	25.169	25.671
Unallocated assets	-	-	-	-	49.766	48.192
Total assets	**-**	**-**	**-**	**-**	**74.935**	**73.863**
Segment liabilities	-	-	-	-	-	-
Unallocated liabilities	-	-	-	-	52.156	51.157
Total liabilities	**-**	**-**	**-**	**-**	**52.156**	**51.157**

Geographical segments

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in another economic environment.

The Company's sales by geographical market, irrespective of the origin of the goods/services, could be specified as follows:

	2008	2007
Lithuania	35.823	38.693
Latvia	10.149	11.141
Ukraine	3.912	3.679
Estonia	3.183	3.436
Russia	5.277	3.235
Poland	2.191	2.460
Belgium	5.274	1.813
Middle Asia	1.390	1.602
Belarus	1.305	824
Other countries	3.522	2.586
Total	**72.026**	**69.469**

The Company's cost of sales by geographical market, irrespective of the origin of the goods/services, could be specified as follows:

	2008	2007
Lithuania	24.697	25.378
Latvia	7.795	8.490
Ukraine	3.003	2.551
Estonia	2.611	2.762
Russia	4.113	2.227
Poland	2.020	2.155
Belgium	5.268	2.018
Middle Asia	1.426	1.551
Belarus	959	586
Other countries	2.755	4.589
Total	**54.647**	**52.307**

18. Cost of sales

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

	2008	2007
Cost of sales of finished goods	37.056	31.795
Cost of sales of goods for resale	17.507	20.334
Cost of sales of raw materials	49	79
Cost of rendering service	35	99
Total	**54.647**	**52.307**

19. Selling expenses

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

	2008	2007
Personal expenses	3.952	4.266
Transportation expenses	2.144	1.835
Advertisement and exhibition expenses	1.532	1.821
Rent	540	573
Depreciation and amortisation	552	536
Sales expenses	350	268
Business trip expenses	202	206
Own transportations expenses	123	160
Communication expenses	94	121
Insurance	64	73
Representation expenses	79	66
Taxes expenses	50	61
Training	32	53
Mediation expenses	-	35
Security expenses	38	29
Banking services	20	21
Other	1.252	475
Total	**11.024**	**10.599**

20. Administrative expenses

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

	2008	2007
Personal expenses	2.084	3.331
Non-competing contract	-	577
Repairs and maintenance	287	331
Depreciation and amortisation	317	320
Taxes	296	282
Security expenses	283	277
Reversal of inventory write-off to net realizable value	(239)	160
Consultations	110	155
Insurance	68	155
Bank services	114	125
Audit fee	66	119
Transportation expenses	185	116
Communication expenses	101	100
Representation expenses	69	77
Business trip expenses	48	46
Postal service, subscription,	51	44
Training	168	24
Impairment of amounts receivable (reversal)	111	17
Other	204	52
Total	**4.323**	**6.308**

21. Other income, net

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

	2008	2007
Net result on disposal and write off of fixed assets	(83)	(29)
Other income, net	643	345
Total	**560**	**316**

22. Interest expenses

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

	2008	2007
Interest on loans	1.977	1.999
Interest on factoring	327	234
Interest on guarantee	80	80
Total	**2.384**	**2.313**

23. Income tax

A reconciliation of income tax expense at the statutory rate to income tax expense at the Company's effective rate is as follows:

	2008	Proc.	2007	Proc.
Loss before income tax	218		(1.756)	
Tax at statutory income taxes rate of 19% (2005 - 15%)	33	(15)	(316)	(18)
Tax effect of expenses that are not deductible in determining taxable profit and of income not subject to tax	439		455	
Effect of previously unrecognised deferred tax assets recognition	(327)		(375)	
Effect of tax rate change	-		-	
Increase of deferred tax liabilities, net	-		15	
Tax losses carried forward utilization	-		-	
Adjustment of income tax for 2004	-		-	
Adjustment of income tax for 2006	-		(10)	
Income tax benefit	**145**		**(231)**	

	2008	2007
The components of income tax expense are as follows:		
Current Income tax expenses	145	(236)
Adjustment of income tax for 2004		
Net increase (decrease) in deferred tax liability		(10)
Adjustment of income tax for 2006		15
Income tax benefit	**145**	**(231)**

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

At 31 December deferred tax consisted of the following:

	2008	2007
Deferred tax assets		
Provisions and write offs	97	121
Vacation reserve	160	118
Tax loss carried forward		
Total deferred tax assets	**257**	**239**
Deferred tax liabilities		
Fixed assets	1.164	1.472
Total deferred tax liabilities	**(1,472)**	**(1,472)**
Total deferred tax liabilities, net	**(907)**	**(1.233)**

24. Earnings per share

	2008	2007
Net profit (loss) for the year	73	(1.525)
Weighted average number of ordinary shares	9.905.460	9.905.460
Total	**0,01**	**(0,15)**

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2008 and 2007 was 9,905,460. The Company had no dilutive options outstanding during 2008 and 2007 or at 31 December 2008 and 2007.

25. Related party transactions

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

- Opoczno S.A, Poland (parent company and controlling entity);
- Baltijos Keramika UAB, Lithuania (associate);
- Dvarčia UAB, Lithuania (party related through management of the Company);
- Dvarcioniu Keramika SIA, Latvia (subsidiary under liquidation).
- UAB Dvarčia (party related through former management of the company).

a) transactions between related parties

	Opoczno S.A		UAB „Baltijos keramika“		UAB Dvarčia	
	2008	2007	2008	2007	2008	2007
Income:						
Goods sold	-	472	731	536	86	238
Other	-	-	-	7	-	-
Total	**-**	**472**	**731**	**543**	**86**	**238**
Cost of sales:						
Costs of production sold	-	469	346	417	-	185
Costs of other income	-	-	-	2	-	-
Total	**-**	**469**	**346**	**419**	**-**	**185**
Purchases:						
Goods	4.619	12.215	456	873	-	291
Materials	-		-	-	403	-
Non- current assets	-	-	25	-	-	-
Total	**4.619**	**12.215**	**481**	**873**	**-**	**-**
Operating expenses:						
received services	-	21	-	5	-	-
Financial expenses (interest)	20	80	-	536	-	-

	Opoczno Trade		Opoczno I		Cersanit S.A	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Income:						
Goods sold	-	-	4.955	-	-	-
Other	-	-	1	-	-	-
Total	**-**	**-**	**4.956**	**-**	**-**	**-**
Cost of sales:						
Costs of production sold	-	-	4.764	-	-	-
Costs of other income	-	-	-	-	-	-
Total	**-**	**-**	**4.764**	**-**	**-**	**-**
Purchases:						
Goods	3.796	-	79	-	7	-
Materials	-	-	-	-	-	-
Non current assets	-	-	-	-	26	-
Total	**3.796**	**-**	**79**	**-**	**33**	**-**
Operating expenses: received services	-	-	-	-	-	-
Financial expenses (interest)	-	-	-	-	60	-

b) balances between related parties

	Opoczno S.A		UAB „Baltijos keramika“		Dvarčionių Keramika SIA		UAB Dvarčia	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Trade and other receivables	-	-	-	182	-	-	-	-
Inventory	-	1.882	-	-	-	-	-	-
Total	**-**	**1.882**	**-**	**182**	**-**	**-**	**-**	**-**
Interest accrued	-	72	-	-	-	-	-	-
Trade payables	652	4.753	151	80	-	-	28	2
Total	**652**	**4.825**	**151**	**80**	**-**	**-**	**28**	**2**

	Opoczno Trade		Opoczno I		Cersanit S.A	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Trade and other receivables	433	-	-	-	-	-
Inventory	1439	-	-	-	49	-
Total	**433**	**-**	**-**	**-**	**49**	**-**
Interest accrued	-	-	40	-	120	-
Trade payables	4.874	-	-	-	56	-
Total	**4.874**	**-**	**40**	**-**	**176**	**-**

On 7 September, 2005 Opoczno S.A. issued the unconditional guarantee of LTL‘000 10.000 in favour of Bankas Hansabankas AB for the credit facilities provided by the bank to the Company. The guarantee carries an annual interest of 0.8%.

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

Management Board of the Company:

Name	Period
Marek Andrzej Ungier	2008.01.01-12.31
Algirdas Krupavičius	2008.01.01-12.31
Mindaugas Bučas	2008.01.01-12.31
Amadeuaz Kowalski	2008.01.01-12.31
Liudmila Suboč	2008.12.08-12.31

The compensation to the Management Board of the Company during 2008 amounted to LTL'000 448 (2007: LTL'000 1.476).

Supervisory Board of the Company:

Name	Period
Jerzy Karney	2008.01.01-12.06
Miroslaw Jędrzejczyk	2008.01.01-12.31
Grzegorz Saniawa	2008.01.01-12.31

The Company did not pay any compensation to the Supervisory Board of the Company during 2008 (2007: LTL'000 30).

26. Claims and litigations

At 31 December 2008 and 2007 the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements, apart from those, related to recovery of accounts receivable.

27. The Company's solvency

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Due to this reason the management of the Company believes, that future cash flows will be sufficient to meet the Company's current obligations.

28. Subsequent events

There have been no significant subsequent events which could have a material impact on the financial statements for the period ended 31 December 2008.

29. Contingent liabilities

At 31 December 2008 contingent liabilities consisted of the following:

	2008	2007
Asset insurance payments till 31 November 2013 (Compulsory according the Loan contract)	183	183
Lease interest till full repayment of lease	14	9
Bank loan interest till maturity (30 September 2013)	4.655	5.881
Interest of Guarantee, provided by Opoczno S.A	80	80
Total:	**4.767**	**6.153**

Emission rights movement for the year ended 31 December 2008 consisted of the following:

	Emission rights	Received Government grant	Provision for used emission rights
Government grant received	56.127	56.127	-
Provision for used emission rights	-	(15.045)	15.045
At 31 December 2008	**56.127**	**41.082**	**15.045**

30. *Restatement of the financial statements for the year ended 31 December 2007*

Starting from 1 January 2008 the Company has changed the policy of accounting for investment in associated company Baltijos Keramika UAB. Before 1 January 2008 the investment in associate was accounted under the equity method. International Financial Reporting Standards (IFRS) require such investments upon preparing the separate financial statements to be accounted at cost method. Starting from 1 January 2008 investment in Baltijos Keramika UAB is accounted at cost method. Corresponding financial information was restated to reflect the application of cost method in accounting for investment in associated company resulting in decrease in investments by LTL'000 111 as of 31 December 2007, increase of net financing revenues (expense) as of 31 December 2007 by LTL'000 5 and decrease of retained earnings as of 31 December 2006 and LTL'000 116.

The effect of the aforementioned restatements to the financial statement lines is as follows:

	As previously reported LTL'000	Adjustments LTL'000	As restated LTL'000
Balance sheet as of 31 December 2007			
Investments	411	(111)	300
Total non-current assets	**50,611**	**(111)**	**50,500**
Total assets	**76,837**	**(111)**	**76,726**
Retained earnings	1166	(111)	1,055
Total equity	**25,047**	**(111)**	**24,936**
Total equity and liabilities	**76,837**	**(111)**	**76,726**
Income statement for the yerd ended 31 December 2007			
Net financing revenues/(expense)	(2332)	5	(2327)
Net result for the period	**(1530)**	**5**	**(1525)**