

## INDEPENDENT AUDITOR'S REPORT

To the shareholder of Ilsanta UAB

### Report on the Financial Statements

We have audited the accompanying financial statements of Ilsanta UAB (hereafter – “the Company”) (pages from 5 to 26), which comprise the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and explanatory notes, including a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and legal regulations on accounting and financial reporting of the Republic of Lithuania.

### Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2013 (page 4) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2013.

Deloitte Lietuva UAB  
Audit Company License No. 001275

  
Jekaterina Jocienė  
Lithuanian Certified Auditor  
License No. 000436

Vilnius, Republic of Lithuania  
3 March 2014

**ILSANTA UAB****Company code: 110498671, Company address: A. Goštauto 40A, Vilnius****ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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The annual report of Ilsanta UAB (hereinafter – „the Company”), legal entity code 110498671, registered office at A. Goštauto 40A, Vilnius, for the financial year 2013 has been prepared by the Management of the Company, following Article 25 of the Law of the Republic of Lithuania on financial statements of Entities.

The main activity of the Company is wholesale of medical goods and equipment.

In 2013 the Company continued its operations as distributor of Boston Scientific Corporation, Stryker, Acist and Maquet products in the Baltics, remained one of the major medical device products distributor in Lithuania and continued as distributor of TRUMPF and other medical equipment.

In 2013 the total revenue of the Company was LTL'000 41,653 which is a decrease of 14% compared to 2012. The main reason was a delay in major hospital equipment projects to 2014. The commercial profitability ratios remained similar to the previous year's level.

In 2013 the Company earned a net profit of LTL'000 1,528.

As at 31 December 2013 the authorized capital of the Company was LTL'000 8,179. Albatross ehf., an Icelandic company, holds 94% of shares of the Company.

Total assets of the Company as at 31 December 2013 amounted to LTL'000 32,914.

The Company improved the management of inventory, therefore the inventory decreased by 16% and amounted to LTL'000 4,363 as at 31 December 2013.

Trade receivables decreased by 19% in comparison with the year 2012. The major debtor of the Company P. Stradina Clynical University Hospitals paid all debts overdue under 90 days towards the end of the year. Total trade receivables as at 31 December 2013 were of LTL'000 10,050.

As a result of this decrease in trade receivables the cash and cash equivalents increased up to LTL'000 7,881.

Total borrowings decreased by 17% and the Company was successfully carrying out its obligations under the contracts.

As at 31 December 2013 payables and accrued expenses decreased by 20% and were of LTL'000 8,012.

On 31 December 2013, the Company had 23 employees (31 December 2012 – 25).

During the financial year, the Company has not acquired any shareholdings in any other companies.

The Company has branches in Latvia and Estonia. The Company has no representative offices.

Financial risk management is disclosed in Note 20 of the Company's financial statements for the year ended 31 December 2013.

There were no important events after the balance sheet date which could have a material effect on the financial position and financial results of the Company for 2013.

In 2014 the Company plans to focus further its attention on its main activities, to maintain market share in the Baltic countries and to continue optimization of its operations.

Sigurdur Agustsson  
General Director



Vilnius, Republic of Lithuania  
3 March 2014





**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2013**

	Notes	2013 LTL	2012 LTL
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	4	398,340	503,508
Goodwill	5	9,775,586	9,775,586
Other intangible assets	5	41	2,823
<b>Total non-current assets</b>		<b>10,173,967</b>	<b>10,281,917</b>
<b>Current assets:</b>			
Inventories	6	4,362,829	5,185,853
Trade receivables	7	10,050,098	12,447,403
Prepayments and deferred charges		339,685	365,401
Prepaid income tax		106,370	366,215
Cash and cash equivalents	8	7,880,785	6,274,310
<b>Total current assets</b>		<b>22,739,767</b>	<b>24,639,182</b>
<b>TOTAL ASSETS</b>		<b>32,913,734</b>	<b>34,921,099</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves:</b>			
Issued capital	9	8,179,200	8,179,200
Foreign currency translation reserve		(43,025)	17,139
Legal reserve		350,449	227,539
Retained earnings		8,968,374	7,563,718
<b>Total equity</b>		<b>17,454,998</b>	<b>15,987,596</b>
<b>Non-current liabilities:</b>			
Borrowings	10	4,297,371	6,507,163
Finance lease liabilities	11	149,444	133,317
<b>Total non-current liabilities</b>		<b>4,446,815</b>	<b>6,640,480</b>
<b>Current liabilities:</b>			
Payables and accrued expenses	12	8,012,443	10,034,384
Borrowings	10	2,964,893	2,232,095
Finance lease liabilities	11	34,585	26,544
<b>Total current liabilities</b>		<b>11,011,921</b>	<b>12,293,023</b>
<b>Total liabilities</b>		<b>15,458,736</b>	<b>18,933,503</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>32,913,734</b>	<b>34,921,099</b>

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

These financial statements were approved and authorized for issue on 3 March 2014.

  
Sigurdur Agustsson  
General Director

  
Kristina Noreikienė  
Chief Accountant

**ILSANTA UAB**


Company code: 110498671, Company address: A. Goštauto 40A, Vilnius

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 LTL	2012 LTL
Revenue	13	41,652,963	48,478,638
Cost of sales	14	(30,222,181)	(35,469,469)
<b>Gross profit</b>		<b>11,430,782</b>	<b>13,009,169</b>
Operating expenses	15	(9,408,791)	(9,793,994)
Net gain (loss) on sale of property, plant and equipment		31,629	16,962
Other income	16	131,994	-
<b>Operating profit</b>		<b>2,185,614</b>	<b>3,232,137</b>
Net foreign exchange profit		11,026	126,989
Finance income		1,102	1,422
Finance cost	17	(350,450)	(582,422)
<b>Profit before tax</b>		<b>1,847,292</b>	<b>2,778,126</b>
Income tax expense	18	(319,726)	(319,927)
<b>Profit for the year</b>		<b>1,527,566</b>	<b>2,458,199</b>
<b>Other comprehensive income, net of tax</b>			
Exchange difference on translating foreign operations		(60,164)	(37,061)
<b>Other comprehensive income for the year, net of tax</b>		<b>(60,164)</b>	<b>(37,061)</b>
<b>Total comprehensive income for the year</b>		<b>1,467,402</b>	<b>2,421,138</b>

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

These financial statements were approved and authorized for issue on 3 March 2014.

  
 Sigurdur Agustsson  
 General Director

  
 Kristina Noreikienė  
 Chief Accountant

**ILSANTA UAB**


Company code: 110498671, Company address: A. Goštauto 40A, Vilnius

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Issued capital LTL	Legal reserve LTL	Foreign currency translation reserve LTL	Retained earnings LTL	Total LTL
<b>As at 1 January 2012</b>	<b>8,179,200</b>	<b>86,293</b>	<b>54,200</b>	<b>5,246,765</b>	<b>13,566,458</b>
Net profit for the year	-	-	-	2,458,199	2,458,199
Transfer to reserves	-	141,246	-	(141,246)	-
Other comprehensive income	-	-	(37,061)	-	(37,061)
<b>As at 31 December 2012</b>	<b>8,179,200</b>	<b>227,539</b>	<b>17,139</b>	<b>7,563,718</b>	<b>15,987,596</b>
Net profit for the year	-	-	-	1,527,566	1,527,566
Transfer to reserves	-	122,910	-	(122,910)	-
Other comprehensive income	-	-	(60,164)	-	(60,164)
<b>As at 31 December 2013</b>	<b>8,179,200</b>	<b>350,449</b>	<b>(43,025)</b>	<b>8,968,374</b>	<b>17,454,998</b>

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

These financial statements were approved and authorized for issue on 3 March 2014.

  
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Sigurdur Agustsson  
General Director  
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Kristina Noreikienė  
Chief Accountant



**ILSANTA UAB**

Company code: 110498671, Company address: A. Goštauto 40A, Vilnius

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	2013 LTL	2012 LTL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year before tax	1,847,292	2,778,126
Adjustments for:		
Depreciation	197,099	215,737
Amortisation	2,782	6,300
Finance income	(1,102)	(1,422)
Interest cost	282,626	512,186
Other finance cost	67,824	70,236
Net foreign exchange (gain)	(11,026)	(126,989)
Net (gain) on disposal of fixed assets	(31,629)	(16,962)
Change in allowance for inventory net realisable value	75,608	18,599
Change in allowance for doubtful receivables	1,150	(385,413)
Reclassification of other property, plant and equipment	-	71,742
	2,430,624	3,142,140
Movements in working capital:		
Decrease in trade receivable	2,396,155	5,589,612
Decrease in prepayments and deferred charges	25,716	60,592
Decrease (increase) in inventories	747,416	(771,520)
(Decrease) increase in payables and accrued expenses	(2,021,941)	68,080
Cash generated from operations	3,577,970	8,088,904
Interest (paid)	(287,999)	(524,386)
Income tax (paid)	(59,881)	(871,822)
<b>Net cash generated by operating activities</b>	<b>3,230,090</b>	<b>6,692,696</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant, equipment and intangible assets	(40,604)	(242,327)
Proceeds from disposal of property, plant, equipment and intangible assets	34,586	34,319
Interest received	1,102	1,422
<b>Net cash generated by investing activities</b>	<b>(4,916)</b>	<b>(206,586)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	746,216	-
Proceeds from finance lease	(31,847)	(20,309)
Repayments of borrowings	(2,217,837)	(4,574,523)
Other financial expenses paid	(67,824)	(34,188)
<b>Net cash used in financing activities</b>	<b>(1,571,292)</b>	<b>(4,629,020)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,653,882</b>	<b>1,857,090</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>6,274,310</b>	<b>4,327,714</b>
Effects of exchange rate changes to balances held in foreign currencies	(47,407)	89,506
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>7,880,785</b>	<b>6,274,310</b>

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

These financial statements were approved and authorized for issue on 3 March 2014.

Sigurdur Agustsson  
General Director

Kristina Noreikienė  
Chief Accountant

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2013****1. GENERAL INFORMATION**

Ilsanta UAB (hereafter „the Company“) was registered on 10 May 1993. The main activity of the Company is wholesale of medical device products and medical equipment.

The address of its registered office is as follows:

A. Goštauto 40A  
Vilnius, 01112  
Lithuania

In 2013 the Company on average employed 23 employees (25 in 2012).

Addresses of the Company's branches:

<u>Country of Company's branches</u>	<u>Address</u>
Latvia	Blidenes 1a - 7, Riga LV 1058
Estonia	Pärnu mnt. 130-13, Tallinn 11317

As at 31 December 2013 the immediate parent controlling party of the Company was Albatross ehf. (incorporated in the Republic of Iceland). Albatross ehf. holds 94% shares of the Company.

**2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

**2.1. Standards and Interpretations effective in the current period**

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current period:

- IFRS 13 "Fair Value Measurement", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 "Presentation of financial statements" – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any changes in the Company's accounting policies.



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2013**

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**2.2. Standards and Interpretations issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" – Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

**2.3. Standards and Interpretations issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the date of authorisation of these financial statements (the effective dates stated below is for IFRS in full):

- IFRS 9 "Financial Instruments" and subsequent amendments (effective date was not yet determined),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2013****3. A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and legal regulations on accounting and financial reporting of the Republic of Lithuania.

**Basis of preparation**

The financial statements have been prepared on the historical cost basis, except certain items as described below (e.g. at fair value, at net realizable value or with a deduction of impairment). The principal accounting policies adopted are set out below.

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

**Goodwill**

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

After initial recognition goodwill acquired in a business combination is to be carried at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is recognized directly in profit or loss in the statement of profit or loss and other comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

**Property, plant and equipment and intangible assets excluding goodwill**

Property, plant and equipment and intangible assets are stated at cost less accumulated depreciation/amortisation and any accumulated impairment losses, if any.

Depreciation/amortisation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation/amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

Equipment	3 - 5	years
Vehicles	3 - 6	years
Other property, plant and equipment asset	2 - 10	years
Intangible assets	3 - 5	years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2013**

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**Impairment of property, plant and equipment and intangible assets other than goodwill**

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whatever there is an indication that the asset may be impaired.

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 recognised 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs of inventories are determined by the first-in, first-out method (FIFO). Net realisable value represents the estimated selling price for inventories less estimated costs of completion and costs necessary to make the sale.

**Provisions**

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

**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 lessee**

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the 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. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2013**

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**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 rate method

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result 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 affected.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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 considered 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 recognised in profit or loss.

For financial assets measured at amortised cost, 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 recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

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, to the net carrying amount on initial recognition.

**Cash and cash equivalents**

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



**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2013****Revenue recognition**

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

**Sale of goods**

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

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

**Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**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 the end of each reporting period, 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 profit or loss for the period.

As at 31 December the applicable rates used for the principal currencies were as follows:

2013	2012
USD 1 = LTL 2.5098	USD 1 = LTL 2.6060
EUR 1 = LTL 3.4528	EUR 1 = LTL 3.4528
LVL 1 = LTL 4.9184	LVL 1 = LTL 4.9520
ISK 1 = LTL 0.021702	ISK 1 = LTL 0.020394

**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 profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and 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 end of the reporting period. In 2013 the income tax applied to the Company is 15% (2012: 15%)

**Deferred tax**

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

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

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



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2013**Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in profit or loss and other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in profit or loss and other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Related parties**

A related party is a person or entity that complies with any of the following conditions:

- a. A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control of the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b. An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. [Effective for annual reporting periods beginning on or after 1 July 2014.] The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

**Subsequent events**

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

**Reserves**Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated according to accounting policies of the Republic of Lithuania, are compulsory until the reserve reaches 10% of the share capital.

Currency translation reserve

Currency translation reserve consists of the differences between currency exchange rates at the date of acquisition of the Group companies and at the year end.

**Contingencies**

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with acquisitions. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

**Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the 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 recognised 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.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2013**

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Impairment of property, plant and equipment

The Company makes an assessment, at least annually, whether there are any indications that property, plant and equipment have suffered any impairment. If that is the case, the Company makes an impairment test in accordance with the accounting policy set out in Note 3. The recoverable amount of cash-generating units is determined based on value-in-use calculations. As at 31 December 2013 and 2012 there were no indications that property, plant and equipment might be impaired.

Impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy set out in Note 3. Recoverable amounts for cash generating units are based on value in use, which is calculated from cash flow projections for 5 years using data from the Company's internal forecasts. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

Impairment of financial assets

At each balance sheet date, the Company reviews the financial assets to determine whether there is any indication that those assets have suffered an impairment loss. 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. As at 31 December 2013 and 2012 impairment was not recognized.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of unrecognized tax losses in the financial statements As at 31 December 2013 was LTL 905,927 (2012: LTL 1,501,387).



**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2013**
**4. PROPERTY, PLANT AND EQUIPMENT**

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

	<b>Vehicles LTL</b>	<b>Equipment LTL</b>	<b>Other property, plant and equipment LTL</b>	<b>Total</b>
<b>Cost</b>				
<b>1 January 2012</b>	<b>545,505</b>	<b>265,681</b>	<b>968,683</b>	<b>1,779,869</b>
Additions	211,163	34,873	173,248	419,284
Disposals	(144,373)	(9,008)	(97,455)	(250,836)
Reclassification to inventory	-	-	(71,742)	(71,742)
Effect of currency translation	343	170	1,796	2,309
<b>31 December 2012</b>	<b>612,638</b>	<b>291,716</b>	<b>974,530</b>	<b>1,878,884</b>
Additions	65,900	17,952	12,767	96,619
Disposals	(69,199)	(15,803)	-	(85,002)
Effect of currency translation	(1,114)	(694)	(6,607)	(8,415)
<b>31 December 2013</b>	<b>608,225</b>	<b>293,171</b>	<b>980,690</b>	<b>1,882,086</b>
<b>Accumulated depreciation</b>				
<b>1 January 2012</b>	<b>423,620</b>	<b>207,867</b>	<b>759,744</b>	<b>1,391,231</b>
Charge for the year	102,346	27,704	85,687	215,737
Disposals	(127,010)	(9,000)	(97,460)	(233,470)
Effect of currency translation	234	115	1,529	1,878
<b>31 December 2012</b>	<b>399,190</b>	<b>226,686</b>	<b>749,500</b>	<b>1,375,376</b>
Charge for the year	64,009	32,830	100,260	197,099
Disposals	(69,199)	(12,846)	-	(82,045)
Effect of currency translation	(1,066)	(445)	(5,173)	(6,684)
<b>31 December 2013</b>	<b>392,934</b>	<b>246,225</b>	<b>844,587</b>	<b>1,483,746</b>
<b>Carrying amount</b>				
<b>31 December 2012</b>	<b>213,448</b>	<b>65,030</b>	<b>225,030</b>	<b>503,508</b>
<b>31 December 2013</b>	<b>215,291</b>	<b>46,946</b>	<b>136,103</b>	<b>398,340</b>

As at 31 December 2013 and 2012 all property, plant and equipment are held for the Company's own use, except for the other property, plant and equipment with the carrying amount of LTL 126,090 and LTL 225,030, respectively, which are rented to other parties.

As at 31 December the carrying amount of the assets being acquired under finance lease was as follows:

	<b>2013 LTL</b>	<b>2012 LTL</b>
Vehicle	208,020	208,185

As at 31 December the cost of fully depreciated property, plant and equipment was as follows:

	<b>2013 LTL</b>	<b>2012 LTL</b>
Other property, plant and equipment	735,488	700,772
Vehicles	319,344	181,542
Equipment	189,682	184,554
<b>Total</b>	<b>1,244,514</b>	<b>1,066,868</b>

**EXPLANATORY NOTES**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

As at 31 December goodwill and other intangible fixed assets consisted of the following:

	<b>Goodwill LTL</b>	<b>Other intangible assets LTL</b>	<b>Total LTL</b>
<b>Cost</b>			
<b>1 January 2012</b>	<b>12,238,736</b>	<b>124,007</b>	<b>12,362,743</b>
Additions	-	-	-
<b>31 December 2012</b>	<b>12,238,736</b>	<b>124,007</b>	<b>12,362,743</b>
Additions	-	-	-
<b>31 December 2013</b>	<b>12,238,736</b>	<b>124,007</b>	<b>12,362,743</b>
<b>Accumulated amortization and impairment losses</b>			
<b>1 January 2012</b>	<b>2,463,150</b>	<b>114,884</b>	<b>2,578,034</b>
Charge for the year	-	6,300	6,300
<b>31 December 2012</b>	<b>2,463,150</b>	<b>121,184</b>	<b>2,584,334</b>
Charge for the year	-	2,782	2,782
<b>31 December 2013</b>	<b>2,463,150</b>	<b>123,966</b>	<b>2,587,116</b>
<b>Carrying amount</b>			
<b>31 December 2012</b>	<b>9,775,586</b>	<b>2,823</b>	<b>9,778,409</b>
<b>31 December 2013</b>	<b>9,775,586</b>	<b>41</b>	<b>9,775,627</b>

The Company tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired.

The goodwill of LTL 9,775,586 that was recognized after the merger of LSA-2 UAB was not impaired in 2013 and 2012. The recoverable amount of the Ilsanta UAB activities was assessed by reference to the cash-generating unit's value in use during the next five year period. Effective interest rate of 14.85% was used when calculating NPV of future cash flows. This discount rate assumed cost of debt 4.1%, cost of equity 16.3%, leverage ratio 0.14 and tax rate 15%.

The key assumptions used in the value in use calculations for Ilsanta UAB activities are as follows:

Budgeted sales	Management believes that the growth of sales for the next five years will keep at the level consistent with prior years, compound annual growth of 1 % was planned;
Budgeted gross margin	Management believes that the budget gross margin will be consistent with that of prior years and gross margin of 25-27% is reasonably achievable;
Operating expenses	Management believes that the growth of operating expenses will be consistent with that of prior years, compound annual growth of -0.3 % was planned.

As at 31 December the cost of fully amortized intangible assets was as follows:

	<b>2013 LTL</b>	<b>2012 LTL</b>
Other intangible assets	122,051	106,226
<b>Total</b>	<b>122,051</b>	<b>106,226</b>

**6. INVENTORIES**

As at 31 December inventories consisted of the following:

	<b>2013 LTL</b>	<b>2012 LTL</b>
Merchandise goods	4,871,387	5,618,803
Less: net realisable value allowance	(508,558)	(432,950)
<b>Total</b>	<b>4,362,829</b>	<b>5,185,853</b>

As at 31 December 2013 inventories of LTL 4,362,829 were pledged under the overdraft agreement with AB DNB bank. Borrowings are disclosed in Note 10.



**EXPLANATORY NOTES**
**FOR THE YEAR ENDED 31 DECEMBER 2013**

The movement for the year of net realizable value allowance consisted of the following:

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
<b>As at 1 January</b>	<b>432,950</b>	<b>414,351</b>
Write off to net realizable value	75,608	18,599
<b>As at 31 December</b>	<b>508,558</b>	<b>432,950</b>

As at 31 December inventories held in consignments stocks consisted of the following:

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
Merchandise goods	2,739,338	2,407,002
<b>Total</b>	<b>2,739,338</b>	<b>2,407,002</b>

**7. TRADE RECEIVABLES**

As at 31 December trade receivables consisted of the following:

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
Trade receivables (domestic)	3,571,743	1,513,602
Trade receivables (foreign)	6,504,746	10,959,043
	10,076,489	12,472,645
Less: allowance of doubtful trade receivables	(26,391)	(25,242)
<b>Total</b>	<b>10,050,098</b>	<b>12,447,403</b>

As at 31 December 2013 the trade receivables of LTL 10,050,098 were pledged under the overdraft agreement with AB DNB bank (Note 10).

The movements in the allowance for impairment of the Company's receivables were as follows:

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
<b>As at 1 January</b>	<b>25,242</b>	<b>410,655</b>
Increase (decrease) in impairment loss	1,149	(385,413)
<b>As at 31 December</b>	<b>26,391</b>	<b>25,242</b>

**8. CASH AND CASH EQUIVALENTS**

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

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
Cash in banks	7,880,552	6,273,273
Cash on hand	233	1,037
<b>Total</b>	<b>7,880,785</b>	<b>6,274,310</b>

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2013**
**9. ISSUED CAPITAL**

As at 31 December 2013 and 2012 authorized share capital comprised of 8,179,200 ordinary shares at par value of LTL 1 each. All shares are fully paid.

As at 31 December 2013 94% of the Company shares are held by Albatross ehf., a company incorporated and existing under the law of Republic of Iceland with ID No. 700507-0250, having its registered office at Borgartuni 26, 105 Reykjavik, the Republic of Iceland.

As at 31 December the shareholder of the Company was as follows:

Shareholder	Proportion of ownership			
	2013		2012	
	Ordinary shares number	%	Ordinary shares number	%
Albatross ehf.	7,688,448	94	7,688,448	94
Sigurdur Agustsson	327,168	4	327,168	4
Andris Eglitis	163,584	2	163,584	2
<b>Total</b>	<b>8,179,200</b>	<b>100</b>	<b>8,179,200</b>	<b>100</b>

**10. BORROWINGS**

As at 31 December borrowings consisted of the following:

	2013 LTL	2012 LTL
Kaupthing Bank hf.	6,516,048	8,729,272
AB DNB bank overdraft	746,216	-
Unicredit credit card	-	8,045
Unicredit limitation fee	-	1,941
<b>Total borrowings</b>	<b>7,262,264</b>	<b>8,739,258</b>
Less: non-current borrowings	(4,297,371)	(6,507,163)
<b>Total current borrowings</b>	<b>2,964,893</b>	<b>2,232,095</b>

All borrowings are in EUR.

As at 31 December 2013 borrowings of LTL 6,516,048 were arranged at floating interest rates averaging at 3.18 to 3.28% (2012: 3.18 - 4.43%).

The Company and AB DNB bank signed an overdraft agreement with the limit of LTL 2,416,960 on 17 May 2013. The overdraft is secured by inventory and trade receivables. As at 31 December 2013 the carrying amount of pledged inventory was of LTL 4,362,829, the carrying amount of trade receivables was of LTL 10,050,098.

As at 31 December 2013 borrowings of LTL 746,216 were arranged at floating interest rates averaging at 2.36%.

The Company arranged payments for Kaupthing Bank hf. loan according to the redefined agreement as signed on 29 December 2010.

As at 31 December 2013 repayment schedule of loan is as following (in LTL):

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years
Kaupthing Bank hf.	2,218,676	4,297,372	-	-

As at 31 December 2013 the Company complied with the covenants of the agreement.



**EXPLANATORY NOTES**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**11. FINANCE LEASE LIABILITIES**

As at 31 December 2013 and 2012 the Company had outstanding finance lease liabilities of LTL 184,029 and LTL 159,861, respectively, related to the acquisition of vehicles. As at 31 December the future annual minimum commitments under finance leases are as follows:

	<b>2013</b>		<b>2012</b>	
	<b>Minimum lease payments LTL</b>	<b>Present value of minimum lease payments LTL</b>	<b>Minimum lease payments LTL</b>	<b>Present value of minimum lease payments LTL</b>
Within one year	39,806	34,585	31,716	26,544
In the second to fifth year inclusive	155,556	149,444	141,655	133,317
<b>Minimum lease payments</b>	<b>195,362</b>	<b>184,029</b>	<b>173,371</b>	<b>159,861</b>
Less: future finance charges	(11,333)		(13,510)	
<b>Present value of minimum lease payments</b>	<b>184,029</b>		<b>159,861</b>	

For the year ended 31 December 2013, the effective borrowing rate fluctuated from 3.00 to 5.60% (2012: 3.50 - 4.62%). Lease liabilities are arranged at floating interest rates, thus exposing the Company to cash flow interest rate risk.

No arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in EUR.

The fair value of the Company's lease obligations approximates their carrying amount. The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

**12. PAYABLES AND ACCRUED EXPENSES**

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

	<b>2013 LTL</b>	<b>2012 LTL</b>
Trade payables	6,791,663	8,905,157
Payables to employees and related taxes	440,545	470,208
Value added tax	349,595	151,005
Accrued vacation reserve	268,758	233,005
Other accrued expenses	161,882	275,009
<b>Total</b>	<b>8,012,443</b>	<b>10,034,384</b>

**13. SALES**

For the year ended 31 December sales by geographical segments, irrespective of the origin of the goods consisted of the following:

	<b>2013 LTL</b>	<b>2012 LTL</b>
Latvian branch	23,873,166	27,125,128
Lithuania	14,738,996	16,713,755
Estonian branch	3,040,801	4,639,755
<b>Total</b>	<b>41,652,963</b>	<b>48,478,638</b>

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2013**
**14. COST OF SALES**

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

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
Cost of goods sold	29,520,341	34,848,899
Warehouse rent expenses	307,565	218,091
Transportation and custom expenses	303,265	292,926
Depreciation	100,185	85,687
Discounts received	(9,175)	(2,645)
Other costs	-	26,511
<b>Total</b>	<b>30,222,181</b>	<b>35,469,469</b>

**15. OPERATING EXPENSES**

For the year ended 31 December, operating expenses consisted of the following:

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
Marketing expenses	3,713,846	4,619,169
Staff cost (including related taxes)	3,481,610	3,171,636
Vehicles rent and fuel expenses	411,072	409,904
Insurance, legal and other services	311,705	381,112
Business trips	300,397	366,095
Premises rent and maintenance expenses	223,431	218,991
Write off of inventory	127,698	252,822
Board expenses	127,629	131,569
Transportation to customers	120,072	128,317
Depreciation and amortisation	99,696	136,350
Consultations	91,118	97,344
Communications	90,835	81,285
Write off of inventory to net realizable value	75,608	18,599
Office expenses	64,606	57,843
Taxes (excluding income tax)	44,737	52,185
Increase (decrease) in impairment loss for doubtful accounts receivable	1,150	(385,413)
Other expenses	123,581	56,186
<b>Total</b>	<b>9,408,791</b>	<b>9,793,994</b>

**16. OTHER INCOME**

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

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
Recovered amounts and compensations	109,557	-
Other	22,437	-
<b>Total</b>	<b>131,994</b>	<b>-</b>

**17. FINANCE COST**

For the year ended 31 December, finance cost consisted of the following:

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
Interest expenses	282,626	512,186
Other finance cost	67,824	70,236
<b>Total</b>	<b>350,450</b>	<b>582,422</b>

Interest rate of Kaupthing bank hf. varied from 3.18 to 3.28% in 2013 (2012: 3.19 - 4.43%).



**EXPLANATORY NOTES**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**18. INCOME TAX EXPENSES**

Reconciliation of income tax expenses/(benefit) at the statutory rate to income tax (benefit)/expenses at the Company's effective rate is as follows:

	<b>2013</b> <b>LTL</b>	<b>%</b>	<b>2012</b> <b>LTL</b>	<b>%</b>
Profit before income tax	1,847,292		2,750,799	
Tax at effective income taxes rate	277,094	15	412,620	15
Tax effect of non-taxable income and non-deductible expense	42,632	2	(66,816)	(2)
Utilisation of previously unrecognised tax losses	-	-	(25,877)	(1)
<b>Income tax expense</b>	<b>319,726</b>	<b>17</b>	<b>319,927</b>	<b>12</b>

The components of income tax expense are as follows:

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
Current income tax expense (Latvian branch)	319,726	319,927
<b>Income tax expense</b>	<b>319,726</b>	<b>319,927</b>

The movement of deferred tax asset is as follows:

	<b>2013</b> <b>LTL</b>	<b>2012</b> <b>LTL</b>
<b>Deferred tax assets:</b>		
Vacation reserve	40,314	34,951
Write-down for inventories	76,284	64,943
Impairment allowance of trade receivables	3,959	3,786
Tax loss carried forward (Lithuanian branch)	495,965	504,405
<b>Total deferred tax assets</b>	<b>616,522</b>	<b>608,085</b>
Goodwill amortisation for tax purposes	(480,633)	(382,877)
<b>Total deferred tax liability</b>	<b>(480,633)</b>	<b>(382,877)</b>
Less: valuation allowance	(135,889)	(225,208)
<b>Net deferred tax liability</b>	<b>-</b>	<b>-</b>

Deferred tax asset has been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts, therefore, part of the deferred tax asset due to tax losses carried forward, is not recognised in the financial statements.

**19. RELATED PARTY TRANSACTIONS**

As at 31 December 2013 and for year then ended the related party transactions were as follows:

<b>Related parties</b>	<b>Payable to related party LTL</b>	<b>Receivable from related party LTL</b>	<b>Paid interest to related party LTL</b>	<b>Sales to related party LTL</b>	<b>Borrowings from related party LTL</b>
Kaupthing bank hf. (shareholder of Albatross ehf.)	9,242	-	262,030	-	6,516,048

Kaupthing bank holds 100% shares of Albatross hf.

As at 31 December 2012 and for the year then ended related party transactions were as follows:

<b>Related parties</b>	<b>Payable to related party LTL</b>	<b>Receivable from related party LTL</b>	<b>Paid interest to related party LTL</b>	<b>Sales to related party LTL</b>	<b>Borrowings from related party LTL</b>
Kaupthing bank hf. (shareholder of Albatross hf.)	-	-	467,423	-	8,729,272

**EXPLANATORY NOTES  
FOR THE YEAR ENDED 31 DECEMBER 2013**

For the year ended 31 December, the remuneration of the Company's management was as follows:

	<b>2013 LTL</b>	<b>2012 LTL</b>
Remuneration of management	1,479,415	1,249,311
Average number of managers	4	4

Remuneration of top management includes all personal compensations and benefits related to General Director and 3 country managers. As at 31 December 2013 accrued but not paid bonuses for the year 2013 consist of LTL 450,108.

**20. FINANCIAL RISK MANAGEMENT**

The Company is exposed to financial risks in its operations, i.e. credit risk, liquidity risks and market risk. To manage the above mentioned risks, the Company seeks to minimize potential adverse effects which could negatively impact financial performance of the Company.

**Credit Risk**

As at 31 December 2013 and 2012 the maximum exposures to credit risk consisted of the following:

	<b>2013 LTL</b>	<b>2012 LTL</b>
Financial assets:		
Trade receivable	10,050,098	12,447,403
Cash and cash equivalents	7,880,785	6,274,310
<b>Total</b>	<b>17,930,883</b>	<b>18,721,713</b>

Financial assets include trade receivables and cash and cash equivalents.

The credit risk of the Company is rather limited because the main buyers are reliable customers.

The Company does not have any significant credit risk concentration, because of having 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.

Ratings of the banks issued by international rating agency Fitch Ratings:

<b>Bank</b>	<b>Long-term credit rating</b>	<b>Short-term credit rating</b>
Nordea Bank Finland Plc Lithuania Branch	AA-	F1+
DNB Bank	A+	F1

Ratings of the banks issued by international rating agency Moody's:

<b>Bank</b>	<b>Long-term credit rating</b>	<b>Short-term credit rating</b>
Nordea Bank Finland Plc Lithuania Branch	Aa3	P-1
DNB Bank	A-1	P-1

As at 31 December 2013 and 2012 the ageing analysis of the Company's financial assets that were past due but not impaired consisted of the following:

	<b>2013 LTL</b>	<b>2012 LTL</b>
Overdue up to 30 days	499,279	2,369,144
Overdue from 30 to 60 days	68,720	40,433
Overdue from 60 to 90 days	4,633	58,642
Overdue more than 90 days	109,397	7,594
<b>Carrying amount</b>	<b>682,029</b>	<b>2,475,813</b>



**EXPLANATORY NOTES**
**FOR THE YEAR ENDED 31 DECEMBER 2013**
**Liquidity risk**

The liquidity risk is managed by planning the cash flows of Company's. 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 coverage of receivables and the short-term cash flows (proceeds and payments).

When concluding credit contracts, the Company follows the following principles: the amount of liquid assets and unused credit lines and credits in the bank accounts must cover the current liabilities of the Company, including the current portion of long-term borrowings.

The following table details the Company's contractual maturity for their financial liabilities. The tables have been drawn up based on the cash flows of financial liabilities based on the earliest 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.

	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
<b>As at 31 December 2013</b>				
Borrowings	2,964,893	4,297,371	-	-
Interest	146,356	28,797	-	-
Obligations under finance leases	34,585	35,677	113,767	-
Payables and accrued expenses	8,012,443	-	-	-
<b>Total</b>	<b>11,158,277</b>	<b>4,361,845</b>	<b>113,767</b>	-
<b>As at 31 December 2012</b>				
Borrowings	2,232,095	2,209,792	4,297,371	-
Interest	238,599	178,646	21,850	-
Obligations under finance leases	26,544	27,488	105,829	-
Payables and accrued expenses	10,034,384	-	-	-
<b>Total</b>	<b>12,531,622</b>	<b>2,415,926</b>	<b>4,425,050</b>	-

**Market risk**
**Interest rate risk**

The borrowings with floating interest rates expose the Company to cash flow interest rate risk.

The Company has borrowings with floating interest rates, related to EURIBOR and EUR LIBOR.

If during the year ended 31 December 2013 the interest rates on the Company's borrowings were higher by 100 basis points, the net profit of the Company would have decreased by 2% (in 2012 - 5%). If on 31 December 2013 the interest rates on the Company's borrowings were lower by 100 basis points, the Company's net profit would have been higher by 2% (in 2012 - 5%).

**Foreign currency exchange risk**

In order to manage the foreign currency exchange risk, the Company concludes credit contracts only in Euros. The sales/purchase contracts are also denominated mostly in Euros, Litas and Lats.

Lithuanian Litas (LTL) is pegged to EUR at 3.4528 Litas for 1 EUR. From 1 January 2012 Estonia adopted EUR as its national currency. From 1 January 2014 Latvia adopted EUR as its national currency.

The Company has no significant concentration of foreign exchange risk; therefore, it did not use any financial instruments facilitating control over the foreign exchange risk in 2013 and in 2012.

The effect of translation differences arising from inclusion of branches in these financial statements is shown in statement of changes in equity.

**EXPLANATORY NOTES**
**FOR THE YEAR ENDED 31 DECEMBER 2013**

As at 31 December 2013 and 2012 monetary assets and liabilities in various currencies consisted of the following:

	<b>2013</b>			<b>2012</b>		
	<b>Asset</b>	<b>Liabilities</b>	<b>Net on-balance</b>	<b>Asset</b>	<b>Liabilities</b>	<b>Net on-balance</b>
	<b>LTL</b>	<b>LTL</b>	<b>sheet financial</b>	<b>LTL</b>	<b>LTL</b>	<b>sheet financial</b>
			<b>position</b>			<b>position</b>
			<b>LTL</b>			<b>LTL</b>
LVL	12,656,769	(746,332)	11,910,437	14,473,552	(479,898)	13,993,654
LTL	3,873,028	(993,929)	2,879,099	2,491,428	(830,246)	1,661,182
EUR	1,352,833	(13,233,172)	(11,880,339)	1,703,312	(16,800,779)	(15,097,467)
USD		(484,997)	(484,997)	-	(821,161)	(821,161)
ISK	48,253		48,253	53,345	-	53,345
SEK		(231)	(231)	-	(240)	(240)
GBP		(75)	(75)	76	(1,179)	(1,103)
<b>Total</b>	<b>17,930,883</b>	<b>(15,458,736)</b>	<b>2,472,147</b>	<b>18,721,713</b>	<b>(18,933,503)</b>	<b>(211,790)</b>

Financial assets consist of trade receivables and cash and cash equivalents. Financial liabilities consist of borrowings, finance lease liabilities, payables and accrued expenses.

**Capital management**

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximize the Company's value to shareholders.

The Company manages its capital structure and makes adjustments to it taking account of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company is obliged to upkeep its equity ratio of not less than 50% of its share capital, as imposed by the Law on Companies of the Republic of Lithuania. There were no other externally imposed capital requirements on the Company.

The Company monitors capital using equity to liabilities ratio. Equity consists of shares, share premiums, reserves, retained earnings attributable to equity owners.

The calculation of equity to current liabilities ratio is presented below:

	<b>2013</b>	<b>2012</b>
	<b>LTL</b>	<b>LTL</b>
Equity	17,454,998	15,987,596
Current liabilities	11,011,921	12,293,023
<b>Equity to current liabilities ratio</b>	<b>159%</b>	<b>130%</b>

**21. COMMITMENTS AND CONTINGENCIES**

As at 31 December 2013 and 2012 the Company was not involved in any legal proceedings which in the opinion of management would have a material impact on the financial statements.

**22. POST BALANCE SHEET EVENTS**

Until the date of signing of these financial statements there were no events or circumstances that would need to be disclosed or adjusted in these financial statements.

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