

INTRODUCTION TO THE FINANCIAL STATEMENT

Introduction to the financial statement and comparable financial data, including , upon consideration specificity of issuer's area of operation, particularly:

1) name (company) and registered office thereof, indication of appropriate court of registration and register number and basic area of operation, according to Polish Activity Classification, hereinafter referred to as "PAC", in case the issuer's securities are traded in market overt, also indication of business area, according to the classification accepted by a given market

Zakłady Lniarskie "Orzeł" Spółka Akcyjna (Joint Stock Company) seated: Myślakowice, ul. Daszyńskiego 16 (voivodeship: Dolnośląskie, administrative district: Jelenia Góra, commune: Myślakowice).

The Company, by the decision of 7th January 2002 of Sąd Rejonowy (First Instance/District Court) for Wrocław-Fabryczna in Wrocław, IX Economic Division, has been entered into Krajowy Rejestr Sądowy [KRS] (State Court Register – Register of Entrepreneurs – No. KRS 0000078120).

The basic area of the Company's operation in accordance with the Polish Classification of Business Activity is production of other fabrics – (1725 Z), linen, linen-mixed fabrics and clothing of such fabrics – (17.40.A) Preparation and spinning (manufacture) of linen yarn (17.14 .A). besides, the Company also operates in the country and abroad within own and others' products (52.41.Z , 52.42.Z , 51.41 Z,51.42.Z) and provides manufacture services (17.30.Z) and non-manufacture services (28.52.Z , 40.30.A , 60.24.B , 70.12.Z , 70.20.Z , 90.01,90.02.A).

2) indicating the duration of the issuer, if determined,

The Company has been established for time undetermined.

3) indication of periods for which the financial statement and comparable financial data are presented,

The provided statements cover a period from 01.01.2008 to 31.12.2008, and comparable data for a period from 01.01.2007 to 31.12.2007.

4) information on issuer's management board and supervisory board members,

Composition of the Management Board as of 31st December 2008:

Rafał Czupryński	- President of the Management Board
Marcin Szawłowski	- Vice-president of the Management Board

In the year 2008, certain significant changes in the composition of the Company's Management and Supervisory Board took place:

As of 1st January 2008, the Company Management Board functioned in the following composition:

Marek Błażków	- President of the Management Board
Jacek Golonka	- Vice President of the Management Board, Financial and Economic Director
Krzysztof Sierka	- Vice President of the Management Board, Commercial and Marketing Director
Józef Pradela	- Member of the Management Board, Production Director

In the running report No. 5/2008, the Company announced that on 28th March 2008 the Supervisory Board dismissed the Vice President of the Management Board and the Commercial and Marketing Director, Mr. Krzysztof Sierka.

On 24th July 2008, the Supervisory Board of Z.L. "Orzeł" S.A., due to the unsatisfactory results attained by the Company, adopted a resolution concerning dismissal of the Company's Management Board, i.e.:

- Marek Błażków - President of the Management Board
- Jacek Golonka - Vice President of the Management Board
- Józef Pradela - Member of the Management Board.

The Company reported the fact of having dismissed the Management Board in running report No. 22/2008 of 24th July 2008.

At the same time, the Supervisory Board of Z.L. "Orzeł" S.A. decided that the Company Management Board will be composed of two persons and adopted applicable resolutions concerning appointment to the Management Board of the following persons as of 24th July 2008: Rafał Czupryński and Marcin Szawłowski.

The Company reported the fact of having delegated the Supervisory Board Members to perform the functions of the Management Board Members in running report No. 23/2008 of 24th July 2008.

On 23rd October 2008, the Supervisory Board adopted the resolution for establishment of the new composition of the Management Board of Z.L. "Orzeł" S.A.:

- Rafał Czupryński - President of the Management Board
- Marcin Szawłowski - Vice-President of the Management Board.

Composition of the Supervisory Board as of 31st December 2008:

- Jan Cegliński - Chairman
- Tomasz Cichorski - Member
- Krzysztof Jaszczycński - Member
- Magdalena Jagiełło-Szostak - Member
- David Thomas - Member

In the year 2008, changes in the composition of the Company's Supervisory Board took place.

As of 1st January 2008, the Supervisory Board of Z.L. "Orzeł" S.A. functioned in the following composition:

- Jacek Klęczar - Chairman
- Jan Cegliński - Vice-Chairman
- Dariusz Czepiel - Secretary
- Krzysztof Jaszczycński - Member
- Piotr Smagała - Member.

The Ordinary Shareholders' Meeting (OSM) of Z.L. "Orzeł" S.A., on 23rd June 2008, appointed 6 persons to perform the functions of the Supervisory Board Members for the VI 3-year common term of office. As of 30th June 2008, the Supervisory Board of Z.L. "Orzeł" S.A. functioned in the following composition: Jan Cegliński, Tomasz Cichorski, Rafał Czupryński, Magdalena Jagiełło-Szostak, Krzysztof Jaszczycński, Marcin Szawłowski.

On 2nd July 2008, at the first meeting, the Supervisory Board of Z.L. "Orzeł" S.A. established its new composition:

- Jan Cegliński - Chairman
- Rafał Czupryński - Vice-Chairman
- Marcin Szawłowski - Secretary
- Magdalena Jagiełło-Szostak - Member
- Tomasz Cichorski - Member

Krzysztof Jaszczyński - Member.

In running report No. 19/2008 of 2nd July 2008, the Company announced the establishment of the Supervisory Board for the VI term of office.

On 24th October 2008, in running report No. 28, the Company announced the fact of the resignation submitted by Mr. Rafał Czupryński and Mr. Marcin Szawłowski from membership in the Supervisory Board of Z.L. "Orzeł" S.A. in relation to their appointment for the Company Management Board.

On 20th November 2008, the Extraordinary Shareholders' Meeting (ESM) of Z.L. "Orzeł" S.A. adopted a resolution concerning the appointment of Mr. David Thomas as the Member of the Supervisory Board as of 20th November 2008.

The Company published the foregoing information in running report No. 31 on 20th November 2008.

5) indication that the financial statement and comparable financial data include joint data – if the issuer's company includes internal organizational units preparing independent financial statements,

The financial statement and comparable financial data do not include joint data. The Company does not have internal organizational groups preparing independent financial statements.

6) indication whether the issuer is a parent company or a significant investor or if it prepares a consolidated financial statement,

The Company is neither a parent company nor a significant investor; the Company does not prepare a consolidated financial statement.

7) in case of financial statement for the period in which a merger took place – indication that this is a financial statement made upon merger of companies and indication of the applied method of clearing the merger,

The Company did not merge with any other entities during the financial period included in this financial statement.

8) indication whether the financial statement was made with the assumption of continuity of the business operations by the issuer in the foreseeable future and whether there are any circumstances indicating danger to continue the business operations,

The financial statement was made with the assumption of continuity of the business operations in the foreseeable future. As of a day of preparation of the financial statement there are not known circumstances indicating danger to continuing the business operations by the Company.

9) statement that the financial statements have been transformed in order to provide comparability of data and list and explanation of differences resulting of adjustments due to the changes of accounting principles (policy) or adjustments of basic errors have been included in an additional explanatory note,

The Company did not transformed the financial data. In the current reporting period none changes of accounting rules provided.

10) determination whether the presented financial statement or comparable financial data contain adjustments resulting from the qualifications contained in the opinions issued by entities authorized to audit financial statements for the years for which the comparable financial data have been published in the prospectus,

In the prior years the opinions by auditors regarding the examined financial statements included none reservations.

By the auditors' opinion in 2002-2006 the Company should have established long-term provisions for payment of employees benefits.

In the opinion for the 2007 year financial statements there was a comment relating to possibility of losing capacity for term payment of liabilities.

11) description of accounting principles (policy) and methods used, including the method used to value assets and liabilities (including depreciation), and the method used to determine the financial profit/loss and the manner of preparing the financial statement and comparable data,

a) tangible fixed assets, intangible assets

Fixed assets and intangible assets – by purchase prices or production costs, or by revaluated value (after revaluation of fixed assets) decreased by depreciation or amortization allowances, as well as by impairment losses.

The purchase price and manufacture cost of fixed assets under construction, fixed assets and intangible assets also covers costs of contracted liabilities purposed to finance for a period of construction, assembly/installation and adjustment/adaptation.

The purchase price and manufacture cost of fixed assets is increased with costs of its upgrade/development.

External fixed assets and intangible assets taken to use by virtue of a leasing agreement is disclosed in fixed assets, if such agreement complies with terms defined in the Act.

Costs of completed development works carried out by the entity for its own need, incurred before starting up the production or applying the process engineering are disclosed in intangible assets, if terms defined in the Act are complied with.

Fixed assets under construction are valued as total costs connected directly with purchase or manufacture of such assets deducted by impairment losses.

In case of changes of process engineering, purposed for liquidation, withdrawal from use or other reasons affecting durable fixed asset or intangible asset impairment, revaluation writ-off is provided debiting other operating costs. Revaluation writ-offs for fixed assets whose value was updated by virtue of other regulations, decrease differences disclosed in capital resulting from revaluation due to update of valuation, possible surplus over differences resulting from revaluation is disclosed in other operating costs.

If a reason for providing write-off durable fixed asset or intangible asset impairment terminates, an equivalent of the entire value or a suitable part of previously created writ-off increases the value of a particular item of assets and is relatively disclosed in other operating costs.

Depreciation is provided in linear method. At establishing a depreciation period and a yearly depreciation rate, an economic utility period of a fixed asset is considered. Correctness of determined periods and depreciation rates is verified periodically.

Fixed assets under construction are not depreciated.

b) receivables

Receivables are valued in the amount to be paid, under prudent estimation, and disclosed in net value (after deduction by revaluation write-offs).

Value of receivables is updated considering a degree of probability of payment for them by providing a revaluation write-off.

c) stocks/inventories

Items of tangible working assets as of a pay of purchase or manufacture are disclosed in accounting books in prices assumed in register considering differences between such prices and real prices of purchase or costs of manufacture of them. As of the balance-sheet date, value of tangible working assets, presented in register prices are adjusted to purchase prices or manufacture costs not higher than prices of their sales. Purchase or acquisition prices applied for valuation as of a balance-sheet date, or planned manufacture costs may not be higher than net sales prices of such items.

In unfinished production there is assumed a relevant net sales part of a finished product, but it may not be higher than real cost value from the previous phase, and lower than value of direct materials used for production. During a year stocks of products and semi-finished goods are valued in registered prices adjusted by variations from registered prices against real manufacture cost. During a year unfinished production is valued in register prices. A register price is a technical manufacture cost of the prior year from the previous phase of production process. For new implemented assortments, a register price is the planned manufacture cost.

Movement of materials is provided in compliance with a method: "first in, first out".

Revaluation write-offs for tangible working assets created in connection with loss of their value and resulting from valuation in net sales prices instead of purchase or acquisition price, or manufacture costs – are disclosed in other operating costs.

d) short-term investments

The forward transactions are evaluated in accordance with the fair value which may have been attained provided that such a transaction had been totally cleared on a given date.

e) cash assets

Cash assets cover assets in domestic legal tenders, foreign currency and foreign exchanges. Cash assets also covers Dinterest accrued on financial assets.

f) prepaid expenses

Prepaid expenses refer to incurred costs relating to future financial periods.

Allowances of prepaid expenses take place accordingly to lapse of time. Time and way of clearing is up to nature of costs to be cleared, under principle of prudent valuation.

g) share capital

The share capital is disclosed in a value defined in the statute/articles of association and entered into the court register.

h) provisions for liabilities

Provisions for liabilities are valued in reasonable value estimated justifiably.

Provisions are provided for:

- certain or of high probability future liabilities, whose amount can be reliably estimated, and particularly for losses resulting from trade transactions in progress, including for granted guarantees, bails, credit/loan operations, results of court proceedings in progress

-future liabilities caused by transformation/ restructure process, in case the entity, by virtue of other regulations, is obliged to do so, or binding agreements relating to the matter are concluded, and plans of restructure process allow reliably estimate value of such future liabilities

i) liabilities

Financial liabilities (excluding financial liabilities purposed for trade, derivative instruments of liabilities nature and items secured) are valued not later than as of the end of a financial period, in the value of amortized costs using an effective percentage rate.

Financial liabilities purposed for trade and derivative instruments of liabilities nature are valued in fair value.

Liabilities other than financial ones are disclosed in the amount of payment required.

j) deferred income tax

Considering temporary differences between value of assets and liabilities disclosed in accounting books, and their tax value as well as tax loss opportune for deduction in future, a provision is created and assets for deferred income tax are established.

Assets for deferred income tax are established in the amount assumed for deduction in future from income tax, in connection with negative temporary differences which in future will cause decrease of a base to calculate income tax and tax loss opportune to be deducted, established at taking prudent principle into consideration.

A provision for deferred income tax is created in the amount of tax income required to be paid in future, in connection with occurrence positive temporary differences, it means differences which will cause increase of a base to calculate income tax in future.

The amount of a provision and assets for deferred income tax is established considering income tax rates binding in a year when fiscal obligation appears.

A difference between a position of provisions and assets for deferred income tax as of the end and the beginning of a financial period influences on a financial result (profit/loss), however provisions and assets connected with deferred income tax relating to transactions settled with own capital, are also disclosed in own capital.

k) disclosure of revenue

Revenues from sales are deemed at delivery of goods, if the entity handed over significant risk and advantage resulting from ownership to goods, or when a service has been provided. Sales is disclosed in net value, i.e. not considering tax on goods and services and after consideration of any granted discounts.

l) changes of accounting principles

In the 2008 year the Company did not change the accounting principles comparing to the prior year.

12. Indicating average exchange rates of the Polish zloty in periods covered by the financial statement and comparable financial data, in relation to euro, determined by Narodowy Bank Polski (the National Bank of Poland [NBP]), and in particulars:

a) an exchange rate binding as of the last day of each reporting period:

the Euro exchange rate binding as of 31.12.2008 was 4.1724

the Euro exchange rate binding as of 31.12.2007 was 3.5820

b) the average rate in each period calculated as the arithmetic average of exchange rates applicable as of the last day of each month in the particular period and in reasonable cases – calculated as the arithmetic average of the exchange rates applicable as of the last day of a particular period and the last day of the period preceding it,

the average rate in a period from 01.01.2008 up till 31.12.2008 was 3.5321

the average rate in a period from 01.01.2007 up till 31.12.2007 was 3.7768

c) the highest and the lowest rate applicable in each period,

in a period from 01.01.2008 up till 31.12.2008 the lowest rate was: 3.2026, the highest 4.1848

in a period from 01.01.2007 up till 31.12.2007 the lowest rate was: 3.5820, the highest 3.9320

13) indicating at least the basic items of balance-sheet, profit and loss account and cash flow account from the financial statement and comparable financial data, converted into euros, stating the principles assumed for the conversion,

The basic items of balance-sheet, profit and loss account and cash flow account as well as comparable data converted into euros.

SELECTED ITEMS	PLN thousand		EUR thousand	
	Current year	Previous year	Current year	Previous year
1. Fixed assets	13 976	15 664	3 350	4 373
2. Current assets	11 534	21 702	2 764	6 059
3. Total assets	25 510	37 366	6 114	10 432
4. Equity	14 366	29 628	3 443	8 271
5. Liabilities and provisions for liabilities	11 144	7 738	2 671	2 160
6. Total liabilities	25 510	37 366	6 114	10 432
7. Net revenues on sales of products, goods and supplies	16 271	27 939	4 607	7 398
8. Profit (loss) on operating activity	-14 285	-3 813	-4 044	-1 009
9. Gross profit (loss)	-14 948	-4 263	-4 232	-1 129
10. Net profit (loss)	-15 262	-4 469	-4 321	-1 183
11. Net cash-flows on operating activity	-247	-21 060	-70	-5 576
12. Net cash-flows on investment activity	74	-2 993	21	-793
13. Net cash-flows on financial operations	339	24 205	96	6 409
14. Net cash-flows total	166	152	47	40

The selected /basic financial data (current and previous year) in EUR was valued, as follows:

- the rate making an average mean of the average NBP exchange rates binding as of the last day of each month (3.5321) was applied to calculate revenues, profits and cash-flows for the 2008 year, the average NBP exchange rate of 31.12.2008 (4.1724) was applied to calculate assets, liabilities and capitals, however to the same previous period there applied average exchange rates (3.7768) and (3.5820);
- net assets calculated as a difference between total assets and liabilities were applied to calculate the book value per 1 share;
- the principles of preparation of balance-sheet, profit and loss account and cash-flow account in the current year were not changed in relation to the prior year.

14) listing and explanation of differences in the value of revealed data and significant differences relating to the assumed accounting principles (policy) in compliance with § 7 of the Decree on financial statements in prospectus.

The Company applies principles and methods of accounting in compliance with the Decree dated 29th September 1994 on accounting.

By resolution No. V/ 64 /2008 dated 23.03.2008, the Company's Supervisory Board appointed an auditor to audit the financial statement.

Considering the experience within examination/audit of financial statements of public companies, the limited liability company: Spółka z o.o. PKF Consult Oddział Regionalny Zachód (PKF Consult) was appointed to audit the financial statement for the 2008 year.

Total due remuneration under the agreement concluded with PKF Consult amounted in 2008 to net PLN 22,000.00.

In 2007 total amount of remuneration paid for audit of the Company's financial statement was a sum of net PLN 15,000.00.