

**AB DVARČIONIŲ KERAMIKA**

**Financial Statements for the year  
ended 31 December 2005 including  
Independent Auditors' Report**

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## **Company details**

### **AB Dvarčionių Keramika**

Telephone + 370 5 2317021  
Telefax + 370 5 2317061  
Registered office: Keramikų g. 2,  
Vilnius, LT-10233 Lithuania

### **Board of Directors**

Juozas Raišelis, President and Chairman of the Board  
Bartosz Marczuk, Vice President  
Bartosz Augustyn, Sales and marketing director  
Audris Imbrasas, Supply and logistics director  
Boguslav Korneta, Production and technical director  
Geraldas Kudrevičius, Finance director

### **Auditors**

KPMG Baltics

### **Bankers**

Hansabankas  
SEB Vilniaus bankas  
Šnoras  
Šiaulių bankas

## **Annual report**

The Board of Directors have today discussed and adopted the annual accounts and the annual report.

The accounts have been prepared in accordance with International Financial Reporting Standards. We consider that the accounting policies used are appropriate and that the annual accounts thus give a true and fair view.

We recommend the accounts to be approved at the Annual General Meeting.

Vilnius, 25 February 2006

Board of Directors:

\_\_\_\_\_  
Juozas Raišelis  
(Chairman)

\_\_\_\_\_  
Bartosz Marczuk

\_\_\_\_\_  
Bartosz Augustyn

\_\_\_\_\_  
Andris Imbrasas

\_\_\_\_\_  
Boguslav Korneta

\_\_\_\_\_  
Geraldas Kudrevičius

## **Auditor's report to the shareholders of AB Dvarčionių Keramika**

We have audited the accompanying balance sheet of AB Dvarčionių Keramika as at 31 December 2005 and the related income statement, statement of changes in equity and cash flow statement for the year then ended.

These financial statements, as set out on pages 6 to 26, are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of AB Dvarčionių Keramika as at 31 December 2005, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on the Company's activities is presented separately from the annual statutory accounts. Following the Lithuanian legislation, we performed a review of the report on the Company's activities for the year 2005 and have not noticed any significant discrepancies between the report on activities and the financial statements presented herein. Upon completion of the review, we issued a separate review report dated 25 February 2006 on the report on the Company's activities to which we refer.

Vilnius, 25 February 2006  
KPMG Baltics, UAB

Leif Rene Hansen  
Danish State Authorized  
Public Accountant

Domantas Dabulis  
Certified Auditor

**AB DVARČIONIŲ KERAMIKA**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

**BALANCE SHEET**

	Notes	2005 LTL'000	2004 LTL'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible fixed assets	2	59.173	60.807
Intangible fixed assets	3	59	114
Investments	4	300	337
Loans to employees		4	30
<b>Total non-current assets</b>		<b>59.536</b>	<b>61.288</b>
<b>Current assets</b>			
Cash at bank and on hand	5	587	337
Inventories	6	16.589	13.709
Accounts receivable and other current assets	7	4.947	4.539
<b>Total current assets</b>		<b>22.123</b>	<b>18.585</b>
<b>TOTAL ASSETS</b>		<b>81.659</b>	<b>79.873</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	8	49.527	49.527
Revaluation reserve		4.864	1.548
Legal reserve	8	125	125
Accumulated deficit		-30.009	-27.565
<b>Total equity</b>		<b>24.507</b>	<b>23.635</b>
<b>Non-current liabilities</b>			
Long-term debts	9	41.453	22.257
Promissory notes	10	0	4.616
Finance lease liabilities	11	50	39
Trade payables	12	0	168
Deferred tax liability	23	1.153	1.457
<b>Total non-current liabilities</b>		<b>42.656</b>	<b>28.537</b>
<b>Current liabilities</b>			
Short-term debts	9	2.392	8.972
Current portion of finance lease liabilities	11	148	87
Promissory notes	10	60	5.979
Factoring finance liabilities		337	928
Trade payables	12	9.393	7.375
Advances received		186	180
Other payables and accrued expenses	13	1.980	4.180
<b>Total current liabilities</b>		<b>14.496</b>	<b>27.701</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>81.659</b>	<b>79.873</b>

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

These financial statements were authorized for issue on 25 February 2006 and are signed on the company's behalf:

\_\_\_\_\_  
 President  
 Juozas Raišelis

\_\_\_\_\_  
 Chief Accountant  
 Vanda Kalpokienė

## **STATEMENT OF INCOME**

	<b>Notes</b>	<b>2005 LTL'000</b>	<b>2004 LTL'000</b>
Sales	<b>17</b>	42.442	41.604
Cost of sales	<b>18</b>	-30.393	-26.552
<b>GROSS PROFIT</b>		<b>12.049</b>	<b>15.052</b>
Selling expenses	<b>19</b>	-5.461	-6.067
Administrative expenses	<b>20</b>	-6.789	-7.937
Other operating income/(expenses), net	<b>21</b>	870	-2.143
Impairment of fixed assets	<b>2</b>	1.006	-14.333
<b>PROFIT (LOSS) FROM OPERATIONS</b>		<b>1.675</b>	<b>-15.428</b>
Financial income /(expenses), net	<b>22</b>	-5.229	-1.126
<b>PROFIT (LOSS) BEFORE TAXES</b>		<b>-3.554</b>	<b>-16.554</b>
Income tax benefit (expense)	<b>23</b>	788	1.731
<b>NET PROFIT (LOSS) FOR THE YEAR</b>		<b>-2.766</b>	<b>-14.823</b>
<b>Basic earnings (loss) per share (in LTL)</b>		<b>-0,28</b>	<b>-1,50</b>

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

These financial statements were authorized for issue on 25 February 2006 and are signed on the company's behalf:

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President  
Juozas Raišelis

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Chief Accountant  
Vanda Kalpokienė

**STATEMENT OF CHANGES IN EQUITY**

	Share capital LTL'000	Legal reserve LTL'000	Revaluation reserve LTL'000	Accumulated deficit LTL'000	Total LTL'000
<b>As of 31 December 2003</b>	<b>49.527</b>	<b>125</b>	<b>2.054</b>	<b>-13.248</b>	<b>38.458</b>
Transfer of current period depreciation of revalued fixed assets			-506	506	
Net loss for the year	0	0	0	-14.823	-14.823
<b>As of 31 December 2004</b>	<b>49.527</b>	<b>125</b>	<b>1.548</b>	<b>-27.565</b>	<b>23.635</b>
Revaluation of fixed assets net of associated deferred tax liability			3.638		3.638
Transfer of current period depreciation of revalued fixed assets			-322	322	0
Net loss for the year				-2.766	-2.766
<b>As of 31 December 2005</b>	<b>49.527</b>	<b>125</b>	<b>4.864</b>	<b>-30.009</b>	<b>24.507</b>

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

These financial statements were authorized for issue on 25 February 2006 and are signed on the company's behalf:

\_\_\_\_\_  
 President  
 Juozas Raišelis

\_\_\_\_\_  
 Chief Accountant  
 Vanda Kalpokienė



**STATEMENT OF CASH FLOWS**

	<b>2005</b> <b>LTL'000</b>	<b>2004</b> <b>LTL'000</b>
<b>CASH FLOWS FROM (TO) OPERATING ACTIVITIES</b>		
<b>Profit (loss) before taxes</b>	-3.554	-16.554
Adjustments to reconcile profit (loss) to net cash provided by operating activities:		
Depreciation and amortization	7.291	6.693
(Gain) loss from disposals and write-off of fixed assets	-32	38
(Reversal of) impairment of fixed assets	-1.006	14.333
(Gain) loss on disposal and write-off of investments	-66	14
Increase (decrease) in allowance for doubtful receivable	-29	1.948
Increase (decrease) in inventory valuation allowance	-249	267
Net interest	3.415	3.206
Net foreign exchange loss (gain)	1.880	-2.891
Changes in operating assets and liabilities:	<b>7.650</b>	<b>7.054</b>
Accounts receivable and other current assets	-354	5.008
Inventories	-2.631	-1.371
Payables and other current liabilities	163	-8.034
Cash provided by operating activities	<b>4.828</b>	<b>2.657</b>
Interest paid	-3.612	-3.000
Corporate income tax paid	-358	0
<b>Net cash provided (used in) by operating activities</b>	<b>858</b>	<b>-343</b>
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES</b>		
Purchase of tangible and intangible fixed assets	-534	-213
Proceeds from sale of tangible fixed assets	248	300
Proceeds from sale of investments	103	
Dividend received	9	
<b>Net cash from (used in) investing activities</b>	<b>-174</b>	<b>87</b>
<b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES</b>		
Proceeds from borrowings, net of repayments	10,736	-783
Proceeds on issue of promissory notes, net of repayments	-10.535	493
Repayments of obligations under finance leases	-44	-88
(Decrease) increase in factoring financing	-591	928
<b>Net cash from (used in) financing activities</b>	<b>-434</b>	<b>550</b>
<b>Net (decrease) increase in cash</b>	<b>250</b>	<b>294</b>
	337	43
<b>CASH AT THE BEGINNING OF YEAR</b>		
	<b>587</b>	<b>337</b>
<b>CASH AT THE END OF YEAR</b>		

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

These financial statements were authorized for issue on 25 February 2006 and are signed on the company's behalf:

\_\_\_\_\_  
 President  
 Juozas Raišelis

\_\_\_\_\_  
 Chief Accountant  
 Vanda Kalpokienė

## **1. ACCOUNTING POLICY**

### ***General information***

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

AB Dvarčionių Keramika is listed on Vilnius Stock Exchange.

The Company is the largest producer of ceramic tiles in the Baltic countries. At 31 December 2005 there were 286 employees in the Company (2004: 366).

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

### ***Statement of compliance***

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

### ***Basis of preparation***

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain tangible fixed assets and are prepared from the accounting records maintained in accordance with Lithuanian legislations.

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates.

The following summarizes the most significant of these policies.

### ***Cash***

Cash include cash on hand and current accounts in banks.

### ***Inventories***

Inventories are stated at the lower of cost or net realizable value. The First-In, First-Out method is used as a basis for calculating the cost. The cost of work in progress and finished goods comprises of raw materials, direct labor cost, other direct costs and related production overheads.

### ***Leasing***

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

#### ***The Company as lessor***

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

#### ***The Company as lessee***

Assets held under finance leases are recognized as assets of the Company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

## AB DVARČIONIŲ KERAMIKA

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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#### **Foreign currency**

Transactions denominated in foreign currency are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. Gains and losses on translation and payment transactions are recorded in the statement of income. The applicable rates used for the principal currencies at 31 December 2005 and 2004 were as follows:

	<b>2005</b>	<b>2004</b>
USD	2.9102	2.5345
EUR	3.4528	3.4528
PLN	0.8961	0.8474

All resulting gains and losses relating to cash settlement are recorded in the income statement in the period in which they arise. Gains and losses on translation are credited or charged to the statement of income by application of the foreign exchange rates prevailing at the year-end.

#### **Tangible Fixed Assets**

Tangible fixed assets are carried at a revalued amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revalued amount is the fair value at the date of the revaluation, which was carried out on 22 April 2005 by independent Lithuanian certified valuers. Depreciation is computed using the straight-line method over the estimated useful lives of the related asset. Revalued assets are depreciated over their remaining lives.

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

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

Gains and losses on disposal of fixed assets are recognized in the income statement in the year of disposal. Useful lives, residual values and depreciation methods are assessed annually.

#### **Impairment**

At each balance sheet date, the Company reviews the carrying amounts of its tangible fixed assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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.

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. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss, to the extent it corresponds to the previous revaluation, is treated as a decrease of the revaluation reserve. Impairment losses in excess of previous revaluations are charged to the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, 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.

## **AB DVARČIONIŲ KERAMIKA**

### **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

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#### ***Borrowing costs***

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

#### ***Trade receivables***

Trade receivables are stated at their original amount outstanding as reduced by appropriate allowances for estimated irrecoverable amounts.

#### ***Trade payables***

Trade payables are stated at their original amount outstanding.

#### ***Financial instruments***

Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

#### ***Investments***

Investments are recognized on a trade-date basis and are initially stated at fair value.

Investments in equity instruments available for sale are measured at fair value. Gain and loss on equity instruments available for sale are included in the statement of income for the accounting period.

Long-term investments, where the Company is not in a position to exercise significant influence or joint control, are stated at cost less impairment losses recognized, where the investment's carrying amount exceeds its estimated recoverable amount.

#### ***Bank borrowings***

Bank loans and overdrafts are recorded at their fair value

#### ***Factoring***

Outstanding accounts receivable financed by factoring are stated in the balance sheet at their gross amounts until collected by the factoring company. The corresponding liability (factoring finance liability) is stated in the balance sheet as a current liability.

#### ***Fair value of financial instruments***

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

#### ***Credit risk***

The Company's credit risk is attributable to its trade and other accounts receivable. The amounts presented in the balance sheet are net of allowances for doubtful receivables estimated on prior experience.

The credit risk of liquid funds (cash) is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies.

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

#### ***Revenue recognition and related expenses***

Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement where delivery has been effected by the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Expenses are charged to operations as incurred on accrual basis.

#### ***Earnings per share***

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2005 and 2004 was 9,905,460. The Company had no dilutive options outstanding during 2005 and 2004 and at 31 December 2005 and 2004.

**AB DVARČIONIŲ KERAMIKA**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

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***Taxation***

The charge for current tax is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted as of balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

***Related parties***

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, employees, members of the supervisory council and management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting party.

***Reclassifications***

Certain 2004 amounts have been reclassified to conform to the 2005 basis of presentation. The reclassifications made did not have any impact on the net result for the year.

**AB DVARČIONIŲ KERAMIKA**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

**2. TANGIBLE FIXED ASSETS**

At 31 December tangible fixed assets consisted of the following:

	Buildings LTL'000	Machinery and equipment LTL'000	Vehicles LTL'000	Other equipment LTL'000	Construction in progress and prepayment LTL'000	Total LTL'000
<b>Cost</b>						
<b>31 December</b>						
<b>2003</b>	<b>46.336</b>	<b>70.470</b>	<b>1.683</b>	<b>1.744</b>	<b>803</b>	<b>121.036</b>
Acquisitions		38	21	52	25	136
Transfers		2		-2		0
Disposals		-50	-56	-1	-143	-250
<b>31 December</b>						
<b>2004</b>	<b>46.336</b>	<b>70.460</b>	<b>1.648</b>	<b>1.793</b>	<b>685</b>	<b>120.922</b>
Acquisitions		94		141	236	471
Revaluation	1.766	2.374	95	43		4.278
Transfers		264		-11	-253	0
Disposals		-116	-318	-6		-440
<b>31 December</b>						
<b>2005</b>	<b>48.102</b>	<b>73.076</b>	<b>1.425</b>	<b>1.960</b>	<b>668</b>	<b>125.231</b>
<b>Depreciation and impairment</b>						
<b>31 December</b>						
<b>2003</b>	<b>7.583</b>	<b>29.852</b>	<b>676</b>	<b>1.128</b>	<b>0</b>	<b>39.239</b>
Charge for the period	1.709	4.705	92	108	0	6.614
Impairment	9.107	4.295	172	74	685	14.333
Disposals		-42	-29			-71
<b>31 December</b>						
<b>2004</b>	<b>18.399</b>	<b>38.810</b>	<b>911</b>	<b>1.310</b>	<b>685</b>	<b>60.115</b>
Charge for the period	1.898	5.038	109	128		7.173
Reversal of impairment	-466	-488			-52	-1.006
Disposals		-65	-158	-1		-224
<b>31 December</b>						
<b>2005</b>	<b>19.831</b>	<b>43.295</b>	<b>862</b>	<b>1.437</b>	<b>633</b>	<b>66.058</b>
<b>Carrying amount</b>						
<b>31 December</b>						
<b>2004</b>	<b>27.937</b>	<b>31.650</b>	<b>737</b>	<b>483</b>		<b>60.807</b>
<b>31 December</b>						
<b>2005</b>	<b>28.271</b>	<b>29.781</b>	<b>563</b>	<b>523</b>	<b>35</b>	<b>59.173</b>

All of the Company's fixed assets are held for own use.

All tangible fixed assets of the Company were revalued, including reversal of previously recognized impairment losses, based on independent valuation performed in 2005,

**AB DVARČIONIŲ KERAMIKA**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

As at 31 December 2005 the following items of property, plant and equipment amounting were subject to registered pledge to secure financing facilities granted to the Company (net book value, LTL'000):

• Land and buildings	28,271
• Machinery and equipment	<u>28,719</u>
<b>Total:</b>	<b>56,990</b>

As at 31 December 2005 net book value of assets held under finance lease amounted to LTL'000 134.

**3. INTANGIBLE FIXED ASSETS**

At 31 December intangible fixed assets consisted of the following:

	<b>Software LTL'000</b>
<b>Historical cost</b>	
<b>31 December 2003</b>	<b>472</b>
Acquisitions	77
Disposals and write-offs	-159
<b>31 December 2004</b>	<b>390</b>
Acquisitions	<u>63</u>
<b>31 December 2005</b>	<b>453</b>
<b>Accumulated depreciation</b>	
<b>31 December 2003</b>	<b>197</b>
Charge for the year	79
<b>31 December 2004</b>	<b>276</b>
Charge for the year	<u>118</u>
<b>31 December 2005</b>	<b>394</b>
<b>Carrying amount</b>	
<b>31 December 2004</b>	<b>114</b>
<b>31 December 2005</b>	<b>59</b>

**4. INVESTMENTS**

At 31 December investments consisted of the following:

	<b>2005</b>		<b>2004</b>	
	<b>Carrying amount LTL'000</b>	<b>Owner- ship, %</b>	<b>Carrying amount LTL'000</b>	<b>Ownership, %</b>
Dvarcioniu keramika SIA (Riga, Latvia)	14	100	14	100
UAB Baltijos Keramika	300	30.6	300	30.6
Other			37	
	<u>314</u>		<u>351</u>	
Impairment	(14)		(14)	
<b>Total</b>	<u>300</u>		<u>337</u>	

At 31 December 2005 the subsidiary Dvarcioniu Keramika SIA was in the process of liquidation, which was started in 2004, therefore investment is reduced to zero.

In 2005 the company disposed of minor amounts of shares of other companies and this resulted in a net gain of LTL'000 66.

**AB DVARČIONIŲ KERAMIKA**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

Due to not materiality, the investment in associated company UAB Baltijos keramika is carried at cost. Summary financial information of UAB Baltijos keramika is as follows:

	<b>Assets</b> <b>LTL'000</b>	<b>Liabilities</b> <b>LTL'000</b>	<b>Equity</b> <b>LTL'000</b>	<b>Revenues</b> <b>LTL'000</b>	<b>Profit /</b> <b>(loss)</b> <b>LTL'000</b>
Year 2005	1.848	404	1.444	1.417	-420
Year 2004	2.780	913	1.868	1.917	85

**5. CASH**

At 31 December cash consisted of the following:

	<b>2005</b> <b>LTL'000</b>	<b>2004</b> <b>LTL'000</b>
Cash at bank	443	269
Cash in hand	45	68
Cash in transit	99	0
<b>Total</b>	<b>587</b>	<b>337</b>
Overdraft	0	0
<b>Cash and cash equivalent</b>	<b>587</b>	<b>337</b>

The Company's bankers have a floating charge over the Company's cash inflows to bank accounts to secure loans granted to the Company.

**6. INVENTORIES**

At 31 December inventories consisted of the following:

	<b>2005</b> <b>LTL'000</b>	<b>2004</b> <b>LTL'000</b>
Raw materials and complimentary materials	3.620	2.893
Work in progress	268	290
Finished goods	9.253	9.493
Goods for resale	3.927	1.761
<b>Total</b>	<b>17.068</b>	<b>14.437</b>
Less allowances for slow moving inventories	-479	-728
<b>Total</b>	<b>16.589</b>	<b>13.709</b>

All inventories including raw materials and complimentary goods, work in progress, finished goods and goods for resale with the value of LTL'000 10,000 are pledged (2004: LTL'000 9,500 - pledged as primary and secondary security) to secure banking facilities granted to the Company.

**7. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS**

At 31 December accounts receivable and other current assets consisted of the following:

	<b>2005</b> <b>LTL'000</b>	<b>2004</b> <b>LTL'000</b>
Trade receivables	5.127	4.434
Prepayments for trade suppliers	83	286
Deferred expenses	40	144
Other receivables	13	20
<b>Total</b>	<b>5.263</b>	<b>4.884</b>
Less allowance for doubtful accounts receivable	-316	-345
<b>Total</b>	<b>4.947</b>	<b>4.539</b>



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**8. SHARE CAPITAL AND LEGAL RESERVE**

At 31 December 2005 and 2004 the Company's share capital consisted of 9,905,460 ordinary shares at par value of LTL 5 each. All shares are fully paid.

The Company has one class of ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Shares of the Company are listed in Vilnius stock exchange.

The shareholders of the Company have changed in 2005. The Polish company Opoczno S.A. purchased the major part of the shares in the Company. The structure of shareholders after Opoczno S.A. acquisition of shares was as follows:

<b>Name of shareholder</b>	<b>Number of shares</b>	<b>Nominal value of shares</b>	<b>%</b>
Opoczno S.A.	5.968.317	29.841.585	60,25
Juozas Raišelis	1.779.860	8.899.300	17,97
Other	2.157.283	10.786.415	21,78
<b>Total</b>	<b>9.905.460</b>	<b>49.527.300</b>	<b>100</b>

There were no movements in the share capital of the Company in either the 2005 or 2004 reporting periods.

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual contributions of minimum 5% of the net distributable profit are required until the legal reserve reaches 10% of the registered share capital. The appropriation is restricted to reduction of the accumulated deficit.

**9. BORROWINGS**

At 31 December borrowings consisted of the following:

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Payable within one year:	2.392	8.972
Between one and two years	6.141	2.586
Between two and five years	18.242	19.671
After five years	17.070	0
	<b>43.845</b>	<b>31.229</b>
Less: amount due for settlement within 12 months	(2.392)	(8.972)
<b>Amount due for settlement after 12 months</b>	<b>41.453</b>	<b>22.257</b>

Analysis for borrowings by currency:

LTL	0	7.600
EUR	43.845	5.278
USD	0	18.351
<b>Total</b>	<b>43.845</b>	<b>31.229</b>

The borrowings consist of long term loan and credit line, both granted by AB Hansabankas as a result of refinancing of AB Snoras, AB Turto bankas loans and promissory issued to SACMI Cooperativa Meccanica IMOLA (Italy).

Long term loan amounts to EUR'000 12,598 (LTL'000 43,500) and matures as of 7 September 2013. The loan is interest bearing of 6 months EUR Libor + 1.3%. The effective interest rate as of 31 December 2005 amounted to 3.443%.

The credit line is opened for EUR'000 434 (LTL'000 1,500) and matures as of 7 September 2006. The actual withdrawal of credit line amounts to EUR'000 100 (LTL'000 345) as at 31 December 2005. The loan is interest bearing of 6 months EUR Libor + 1.3%.

The borrowings are secured over buildings and machinery, inventories and cash (for details see respective notes), as well as by guarantee of LTL'000 10,000 issued by Opoczno S.A. The guarantee is bearing interest of 0.8% per annum.

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**10. PROMISSORY NOTES**

At 31 December promissory notes consisted of the following:

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Payable within one year:	60	5.979
In the second year	0	1.847
In the third to fifth year inclusive	0	2.769
	<b>60</b>	<b>10.595</b>
Less: amount due for settlement within 12 months	(60)	(5.979)
<b>Amount due for settlement after 12 months</b>	<b>0</b>	<b>4.616</b>
Analysis for borrowings by currency:		
LTL	0	1.695
EUR	60	8.900
<b>Total</b>	<b>60</b>	<b>10.595</b>

At 21 March 2003 the Company issued 9 promissory notes with par value of LTL'000 9,992 (EUR'000 2,894) in favor of SACMI Cooperativa Meccanici IMOLA (Italy) following the contract signed in 19 July 2002 for an acquisition of glazed ceramic tile manufacturing line with a guarantee of AB Snoras, signed at 23 October 2002. The promissory notes were bought back at discount rate during the refinancing, the respective guarantee was released.

The Company also bought back other fixed maturity promissory notes issued to suppliers. The outstanding balance of promissory notes bought back in January-February, 2006.

**11. FINANCE LEASE LIABILITIES**

At 31 December the future annual minimum commitments under finance leases of fixed assets are as follows:

	<b>Minimum lease payments</b>		<b>Present value of minimum lease payments</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>	<b>LTL'000</b>	<b>LTL'000</b>
Within one year	155	100	148	87
Between one and five years	57	41	50	39
Sub-total	<b>212</b>	<b>141</b>	<b>198</b>	<b>126</b>
Less: future finance charges	(14)	(15)		
<b>Present value of lease liabilities</b>	<b>198</b>	<b>126</b>		

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

The fair value of the Company's finance lease obligations approximates their carrying amount.

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**12. TRADE PAYABLES**

At 31 December trade payables consisted of the following:

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Payables to:		
Lithuanian suppliers	3.327	4.913
Foreign suppliers	6.066	2.630
	<b>9.393</b>	<b>7.543</b>
Less: amount due for settlement within 12 months	(9.393)	(7.375)
<b>Amount due for settlement after 12 months</b>	<b>0</b>	<b>168</b>

**13. OTHER PAYABLES AND ACCRUED EXPENSES**

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

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Salaries payable	498	803
Taxes payable	828	1.804
Vacation reserve	519	525
Accrued expenses	135	1.009
Other payables	0	39
<b>Total</b>	<b>1.980</b>	<b>4.180</b>

**14. CAPITAL EXPENDITURE COMMITMENTS**

There are no capital expenditures commitments as at 31 December 2005.

**15. FINANCIAL INSTRUMENTS**

Exposure to credit, currency and interest rate risks arises in the normal course of the Company business.

**(a) Credit risk**

Transactions that may involve credit risk for the Company are trade receivables. The Company has a credit policy in place and the exposure to the credit risk is monitored on an ongoing basis. All customers are granted limits, which are updated on periodical basis depending on their payment history. The most significant customers are insured. New customers are served only on advance payment basis, unless they are being insured.

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The amounts presented in the balance sheet are net of allowances for doubtful receivables (for details see note 7).

**(b) Currency risk**

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other than euro (LTL is tied with EUR at fixed rate: 1EUR=3.4528 LTL).

Exposure to currency risk is monitored on an ongoing basis. Currency risk is hedged by balancing payables and receivables in foreign currencies. More than 90% of transactions are made in euro; therefore, exposure to other foreign currencies (USD, PLN) is not material due to limited transactions.

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**(c) Interest rate risk**

The Company is exposed to EUR Libor increase risk on the loan granted by AB Hansabankas. The exposure to interest rate risk amounts to EUR'000 12,700. The change will take place of EUR Libor after 6 months after issue of the loan, i.e. on 7th March, 2006.

**16. OPERATING LEASES**

**Leases as lessee**

LTL'000	Minimum lease payment	Present value of minimum lease payment
Within one year	108	108
Between one and five years	21	21
<b>Sub total</b>	<b>129</b>	<b>129</b>
Less: future finance charges	0	0
<b>Present value of non-cancelable lease liabilities</b>	<b>129</b>	<b>129</b>

The non-cancelable lease is related to number of rented shops, land plots and transport means.

The Company leases a land plot of 10.7 ha situated in Keramikų 2, Vilnius from the state. The land lease matures in 2097 and there are no buy out options included in the land lease contract. Besides that, a clay quarry is lease in Ukmergė and other minor land plots are leased in Kaunas, Klaipėda, Šiauliai and Utena. The land lease contracts can be terminated with 2 months notice and only non cancelable lease obligation amounting to LTL'000 19 is included in the above table.

The lease right of land plot, situated in Keramikų 2, Vilnius, has been pledged to AB Hansabankas for the financial facility granted.

**17. SALES**

**Business segments**

LTL'000	Wholesale		Retail		Total	
	2005	2004	2005	2004	2005	2004
Sales of finished goods	22.528	20.692	9.426	12.843	31.954	33.535
Sales of goods for resale	4.725	2.652	5.086	5.070	9.811	7.722
Sales of raw materials	111	94	3	4	114	98
Sales of service	557	237	6	12	563	249
<b>Total sales</b>	<b>27921</b>	<b>23675</b>	<b>14521</b>	<b>17929</b>	<b>42.442</b>	<b>43.608</b>
Segment result	6.434	8.288	5.615	6.764	12.049	15.052
Unallocated expenses					-10.374	-30.480
Operating profit					<b>1.675</b>	<b>-15.428</b>
Net financing cost					-5.229	-1.126
Income tax benefit					788	1.731
Profit for the period					<b>-2.766</b>	<b>-14.823</b>
Segment assets	10.812	8.936	2.272	1.876	13.084	10.812
Unallocated assets					68.575	69.061
Total assets					<b>81.659</b>	<b>79.873</b>
Segment liabilities					0	0
Unallocated liabilities					57.152	56.238
Total liabilities					<b>57.152</b>	<b>56.238</b>

## AB DVARČIONIŲ KERAMIKA

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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Depreciation and amortization expenses, other non-cash expenses, capital expenditure, impairment losses and reversal of impairment losses are unallocated to the business segments.

#### Geographical segments

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

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Lithuania	22.711	24.706
Ukraine	4.456	9.147
Poland	3.554	0
Russia	3.892	3.582
Latvia	2.378	911
Belgium	1.700	0
Middle Asia	1.711	0
Belarus	413	0
Estonia	421	209
Other countries	1.206	3.049
<b>Total</b>	<b>42.442</b>	<b>41.604</b>

#### 18. COST OF SALES

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

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Cost of finished goods	23.326	21.144
Cost of goods for resale	7.008	5.277
Cost of raw materials	59	131
Cost of services	0	0
<b>Total</b>	<b>30.393</b>	<b>26.552</b>

#### 19. SELLING EXPENSES

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

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Advertising and exhibitions expenses	897	1.443
Personnel expenses	2.686	2.971
Transportation expenses	1.085	855
Rent	421	535
Business trips	241	0
Other	131	263
<b>Total</b>	<b>5.461</b>	<b>6.067</b>

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**20. ADMINISTRATIVE EXPENSES**

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

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Personnel expenses	2.338	2.194
Repair and maintenance of assets	315	1.092
Depreciation and amortization	786	600
Taxes	584	387
Communication expenses	195	361
Security expenses	336	356
Consultations	380	0
Insurance	232	0
Business trips	0	255
Representation expenses	0	47
Other	1.623	2.645
<b>Total</b>	<b>6.789</b>	<b>7.937</b>

**21. OTHER OPERATING INCOME/(EXPENSES), NET**

For the year ended 31 December 2005 other operating income/(expenses), net consisted of the following:

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Decrease/(increase) in allowance for doubtful account receivables	29	-1.982
Decrease/(increase) in allowance for slow moving inventory	249	-267
Net result on disposals of fixed assets	71	0
Other, net	521	106
<b>Total</b>	<b>870</b>	<b>-2.143</b>

**22. FINANCIAL INCOME/ (EXPENSES), NET**

For the year ended 31 December financial income/(expenses), net consisted of the following:

	<b>2005</b>	<b>2004</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Gain (loss) from foreign currency, net	-1.880	2.094
Dividends received	9	0
Interest, net	-3.424	-3.206
Gain on disposal of financial assets	66	0
Impairment of investments	0	-14
<b>Total</b>	<b>-5.229</b>	<b>-1.126</b>

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**23. INCOME TAX**

A reconciliation of income tax at the statutory rate 15% to income taxes expense at the Company's effective rate is as follows:

	<b>2005</b> <b>LTL'000</b>	<b>2004</b> <b>LTL'000</b>
Profit (loss) before tax	-3.553	-16.520
Tax at the statutory income taxes rate 15%	-533	-2.478
Tax effect of items that are not deductible or taxable in determining taxable profit	55	243
Effect of recognition of deferred tax asset not recognized in prior years	-504	504
Effect of increasing tax rate on deferred taxation	37	
Adjustment to 2004 taxation (under provided in previous year)	157	
<b>Income tax expenses (credit)</b>	<b>-788</b>	<b>-1.731</b>

The components of income tax are as follows:

Current income tax expense	0	341
Adjustment to 2004 taxation (under provided in previous year)	157	
Net (decrease) increase in deferred tax liability recognized in income	-945	-2.072
<b>Income tax expenses (credit)</b>	<b>-788</b>	<b>-1.731</b>

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

At 31 December the components of deferred income tax were as follows:

	<b>2005</b> <b>LTL'000</b>	<b>2004</b> <b>LTL'000</b>
<b>Deferred tax assets:</b>		
Provisions and write-offs	148	425
Vacation provision	99	79
Taxable loss carried forward	410	0
Less allowance for realization	0	-504
<b>Total deferred tax asset</b>	<b>657</b>	<b>0</b>
<b>Deferred tax liability:</b>		
Fixed assets	1.810	1.457
<b>Total deferred tax liability:</b>	<b>-1.810</b>	<b>-1.457</b>
<b>Total deferred tax liability, net</b>	<b>-1.153</b>	<b>-1.457</b>

Movement in deferred tax during the year was recognized in:

	<b>2005</b> <b>LTL'000</b>	<b>2004</b> <b>LTL'000</b>
Recognized in income	-945	-2.072
Recognized in equity against revaluation reserve	641	
<b>Total net increase (decrease) during the year</b>	<b>-304</b>	<b>-2.072</b>

**24. RELATED PARTY TRANSACTIONS**

At 31 December 2005 and for the year then ended related party transactions were as follows:

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

**(a) Intercompany transactions**

LTL'000	Opoczno S.A*	UAB Baltijos keramika	UAB Dvarčia
Revenues:	<b>2,825</b>	337	234
Sales of goods	2,818	337	234
Other income	7	0	0
Cost of sales:	<b>3,252</b>	337	140
Cost of sold finished goods	3,252	337	140
Cost of other income	0	0	0
Purchases:	<b>1,924</b>	945	<b>18</b>
Goods	1,671	945	0
Raw materials	227	0	18
Fixed assets	26	0	0
Operating expenses: services received	<b>0</b>	<b>0</b>	<b>0</b>
Net Financing revenues/expenses:			
interest expenses	<b>279</b>	<b>0</b>	<b>0</b>

\* Note: amounts are taken for the period after 22 April, 2005 – date of transferring control.

**b) Intercompany balances**

LTL'000	Opoczno S.A	UAB Baltijos keramika	UAB Dvarčia	Dvarcioniu Keramika SIA
Current assets				
Trade and other receivables	-1	123	9	11
Inventories	2.204*	159	0	0
	<b>2.203</b>	<b>282</b>	<b>9</b>	<b>11</b>
Current liabilities				
Interest bearing loans				
Interest accrued				
Trade payables	3.374	225	7	0
Advances received				
	<b>3.374</b>	<b>225</b>	<b>7</b>	<b>0</b>

On 10<sup>th</sup> March, 2005 the parent company Opoczno S.A approved the loan to the Company of 10 m LTL. The loan was interest bearing of 6 month Eur libor + 2,175%. The loan was withdrawn in tranches in March and April of 2005. The loan and related interest were fully repaid in October 2005.

On 7<sup>th</sup> September, 2005 Opoczno S.A. issued the unconditional guarantee of 10 m LTL in favor of AB Hansabankas for the credit facilities provided by the bank to the Company. The guarantee is interest bearing of 0.8% per annum.



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

Payments to Management Board of the Company:

Name	Period	Remuneration	Premiums	Loan interest	Life insurance	Total
Juozas Raišelis	2005.01.01-12.31	284	0	0	43	327
Audris Imbrasas	2005.04.22-12.31	56	0	0	0	56
Bogusław Korneta	2005.04.22-12.31	76	0	0	0	76
Bartosz Marczuk	2005.03.04-12.31	69	0	0	0	69
Janusz Partyka	2005.04.22-10.27	0	0	0	0	0
Bartosz Augustyn	2005.10.28-12.31	11	0	0	0	11
<b>Total</b>		<b>496</b>	<b>0</b>	<b>0</b>	<b>43</b>	<b>539</b>

The financial statements additionally include accrual of 125 LTL'000, inclusive of social security taxes, for the yearly results.

Payments to Supervisory Board of the Company:

name	Period	Remuneration for performing function of Supervisory Board Member	Remuneration from employment relation	Premiums	Medical protection	Total
Przemysław Jaciubek	2005.04.22-12.14	0	0	0	0	0
Zenius Butkus	2005.04.22-12.31	0	83	0	0	83
Zdzisław Dziedzic	2005.04.22-12.15	0	0	0	0	0
Dariusz Gutarowski	2005.04.22-12.31	0	0	0	0	0
Czesław Okincic	2005.04.22-12.31	0	0	0	0	0
Liudmiła Suboć	2005.01.01-12.31	0	38	0	0	38
Piotr Żehaluk	2005.04.22-12.31	0	0	0	0	0
Sławomir Frąckowiak	2005.12.15-12.31	0	0	0	0	0
<b>Total</b>		<b>0</b>	<b>121</b>	<b>0</b>	<b>0</b>	<b>121</b>

**25. LITIGATION AND CLAIMS**

**Litigation and claims** - At 31 December 2005 and 2004 the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements, apart from those, related to recovery of accounts receivable.

**26. THE COMPANY'S SOLVENCY**

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The management of the Company believes that future cash flows will be sufficient to meet the Company's current obligations.

**27. SUBSEQUENT EVENTS**

There have been no subsequent events related to financial statements ended 31 December 2005.

**28. COMMITMENTS AND CONTINGENT LIABILITIES**

Commitments as at 31 December 2005 could be specified as follows (LTL'000):

• Asset insurance payments till 31 November 2013 (Compulsory according the Loan contract)	242
• Non-cancelable payments related to lease of shops	123
• Lease interest till full repayment of lease	14
• Bank loan interest till maturity (30 September 2013)	8,527
• Cost of Guarantee, provided by Opozno S.A (2006-2007)	160
<b>Total:</b>	<b>9,066</b>

\* \* \* \* \*



**DVARČIONIŲ KERAMIKA**

**AB „DVARČIONIŲ KERAMIKA“**

**MANAGEMENT REPORT**

**FOR THE YEAR 2005**

**Vilnius, 2006**

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## 1 2005 COMPANY’S BUSINESS REVIEW

2003 – 2005 company’s key ratios:

	2003	2004	2005
Sales, kLTL	48,578	41,604	42,442
Gross profit, kLTL	13,138	15,052	12,049
Gross profit margin, %	27%	36%	28%
EBIDTA, kLTL	4,708	-8,735	8,966
EBIDTA margin, %	10%	-21%	21%
Profit (loss) before tax, kLTLL	114	-16,554	-3,554
Net profit (loss), kLTL	64	-14,823	-2,766
Assets, kLTL	106,596	79,873	81,659
Shareholders’ equity, kLTL	38,458	23,635	24,507
Long-term debts, kLTL	38,078	28,537	42,656
Cash flows from operating activity, kLTL	5,418	-343	858
Working capital, kLTL	-5,923	-9,116	7,628
Profit per share, LTL	0.006	-1.497	-0.28
Investments, kLTL	19,938	213	482
Number of employees at the end of the year	466	366	286
Average salary, LTL/month.	1,475	1,296	1,774

All numbers based on IFRS financial statements.

### 2005 key events

<b>March</b>	Opoczno S.A – the biggest ceramic tiles producer in Poland and one of the biggest in Europe acquires the controlling stake (60,25 % of shares) of AB Dvarčionių keramika
<b>April</b>	Opoczno S.A takes the formal control over the enterprise – election of the new Management and Supervisory Boards.  The main shareholder issues 10 mln. LTL loan to restore the liquidity of the company.
<b>May</b>	Formation of new staff (new sales, production and finance managers).
<b>June</b>	The economy -class product introduced to production;  Toll manufacturing started.
<b>July</b>	Optimization of production processes and costs is implemented; investments are made for the automation of auxiliary processes.
<b>September</b>	Refinancing the loan portfolio to reduce the financial costs, eliminate foreign exchange fluctuation risk, delay maturity dates and simplify administration (to single 43,5 mln LTL AB Hansabank loan were integrated two AB Snoras, AB Turto bankas, Opoczno S.A. loans and SACMI promissory notes).  Credit line up to 1,5 mio LTL opened to help to manage cash flows effectively.  ISO 9001 and 14001 re-certification. .
<b>October</b>	10 mln LTL loan repaid to Opoczno S.A.
<b>November</b>	The new collection was created. The first phase was introduced at the end of 2005, second phase – will be put to market in spring 2006.
<b>December</b>	The budget, goals and action plan for 2006 is prepared.

## **1.1 The management of the company**

<b>Business vision</b>	<ol style="list-style-type: none"><li>1. To 'dress' people's houses and workplaces</li><li>2. Listen and quickly respond to the market needs, be recognized for novelty and quality and ensure the above average returns for the shareholders.</li></ol>
<b>Shareholders meeting</b>	<p>The main organ of company's management.</p> <p>Shareholders' meeting decisions in 2005:</p> <ol style="list-style-type: none"><li>1. the elections of the new supervisory board</li><li>2. the collateral of fixed assets to secure liabilities</li><li>3. the elections of the audit company and establishment of payment terms. UAB “KPMG Baltics“ was selected to audit 2005 company's financial statements.</li></ol>
<b>Supervisory board</b>	<p>Collegial company's activity supervising organ, comprised from 7 members that are elected for the period of 4 years.</p> <p>Main supervisory board questions discussed in 2005:</p> <ol style="list-style-type: none"><li>1. Elections of the new management board.</li><li>2. Review of the management report project.</li><li>3. Review 2004 company's financial statements.</li><li>4. Review the company's 9 months of 2005 results.</li></ol>
<b>Management board</b>	<p>Main organ of the company's management that is working following the Civil code of Republic of Lithuania, Law on joint stock company's, other laws, shareholders meeting, supervisory and management boards decisions, company's statute and the regulation of management board. The management board is comprised of 6 members, elected for the period of 4 years.</p> <p>Main decisions of the management board in 2005:</p> <ol style="list-style-type: none"><li>1. The new organizational structure is set.</li><li>2. reducing the number of employees due to company's structural reorganization and economic purposes</li><li>3. approval of assuming current financial liabilities</li><li>4. approval of corrected 2005 sales and payments plan</li><li>5. approval of corrected 2005 budget</li><li>6. approval of the new administration regulation</li><li>7. about the collateral of fixed assets</li><li>8. review the semi-annual and quarterly operating results</li><li>9. Decision to disassembly the SMK 158A production line</li><li>10. Decision to sign the credit agreement with AB Hansabankas.</li><li>11. Review of the 9 months budget execution</li><li>12. Review of the environment and quality management systems' analysis</li><li>13. Approval of the new quality and environmental policy of the company</li><li>14. Acceptance of the 2006 sales and production plans</li><li>15. Decision to change employment terms for 2006</li></ol>

## 1.2 Company's Management Board

Juozas Raišelis  
President  
Management board chairman

Bartosz Marczuk  
Vice-President  
Management board member

Bartosz Augustyn  
Sales and Marketing Director  
Management board member

Audris Imbrasas  
Supply and Logistics Director  
Management board member

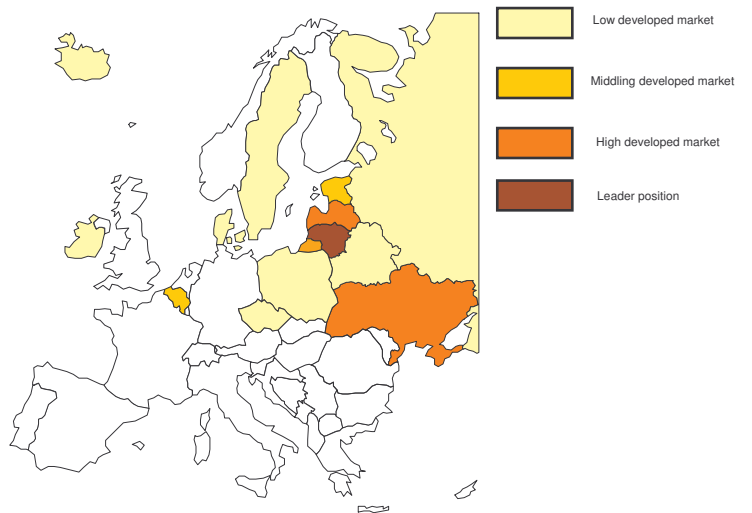
Boguslav Korneta  
Technical and Production Director  
Management board member

Geraldas Kudrevičius  
Financial Director  
Management board member

### 1.3 Sales and markets

In 2005 the Company reversed the negative sales trend started in 2003, which was a result of the increased competition at domestic and export markets (especially in Ukraine and Russia), complicated financial standing and the lack of the new collections. Appearance of the strategic investor in April 2005 helped to reverse this negative trend. Despite the significant fall of sales in IQ 2005 (8,661 kLTL comparing to 10,243 kLTL in 2004 or -15%), IIQ – IVQ sales had increased almost 8% - from 31,361 kLTL in 2004 up to 33,781 kLTL in 2005, giving the annual growth of 2%.

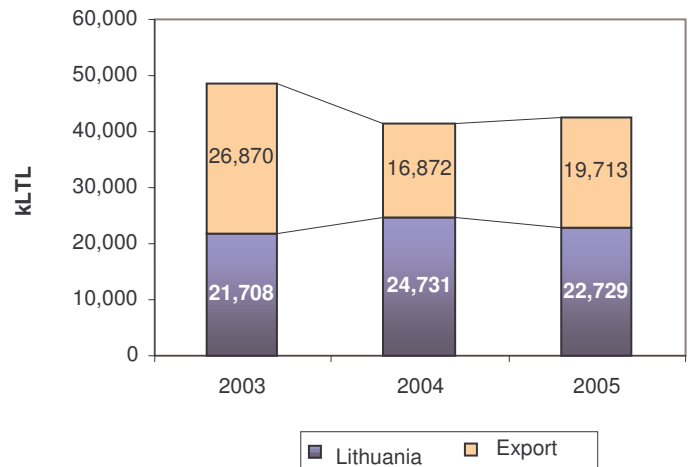
Company's sales at foreign markets (except Middle Asia)



Lithuania remained the main market of company's products generating 54% of all sales directed through 13 own retail shops and through wholesalers and directly to the construction companies.

Due to limited size of the domestic market almost half of the Company's revenues come from export. During 2005 Company strengthened its position in Latvia and Estonia, maintaining the other markets.

Domestic and export sales Years 2003 – 2005





**Sales in Lithuania**

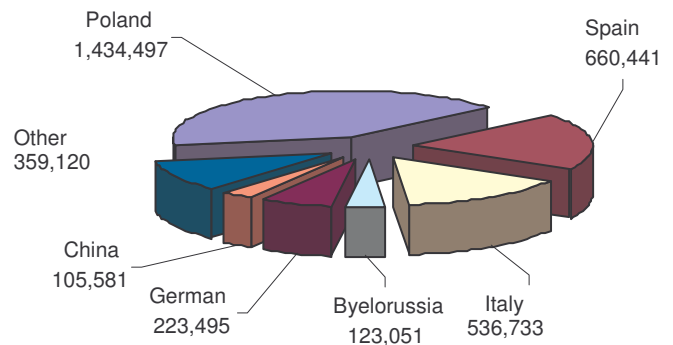
Almost all biggest construction material shops are supplied with company's production. Also there are 13 own-brand retail shops in all the biggest Lithuanian cities (Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys) and other towns. Own-branded shops offer company's product, sanitary equipment, construction materials and professional designer services.

Sales in Lithuania comparing to 2004 had dropped 8% from 24,731 kLTL to 22,730 kLTL. The main reasons of the drop in the domestic market were increased competition from the large DIY chains increased activities of the Polish exporters and the ageing portfolio of the Company's products.

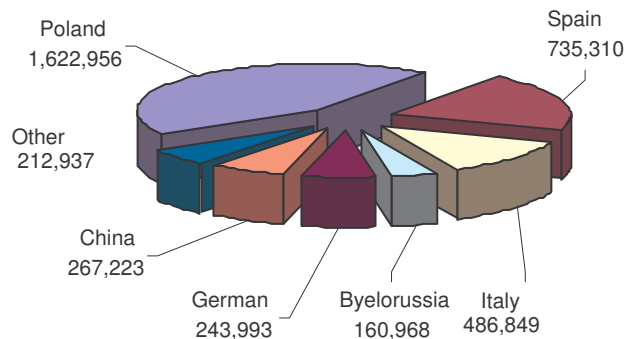
The leading exporter of the ceramic tiles to Lithuania is Poland, with the market share of 44%. Spanish and Italian producers have 20% and 13% of Lithuanian market respectively, but their presence at the market falls relatively. Although Chinese production availability has increased sharply, its market share is quite moderate – c.a. 7%. The volume of imports in 2004 increased by 32%, and in 2005 – by 18%. The raise of imports was called by the extensive expansion of retail supermarkets in 2004 – 2005.

The market of ceramic tiles in Lithuania increased by 18 % in 2005 (2004 – 32 %), while company's own production sales in 2005 amount to 990,460 m<sup>2</sup> or 3% less than in 2004. Overall market share of Company products in Lithuania amounted to 20% in 2005.

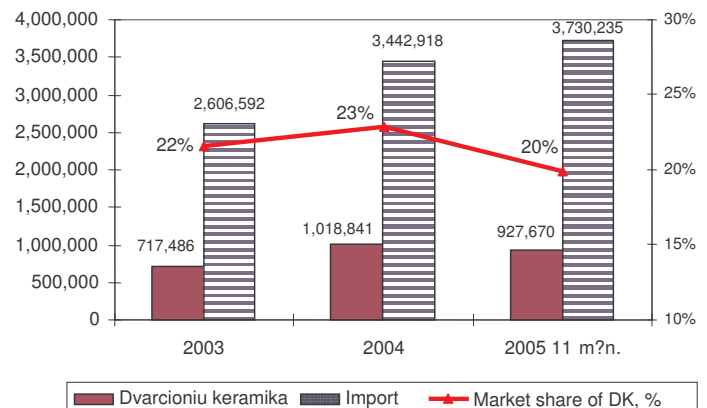
**Lithuania ceramic tiles volume, 2004, (m<sup>2</sup>)**



**Imported to Lithuania ceramic tiles volume, 2005, (m<sup>2</sup>)**



**AB „Dvarčionių keramika“ market share in Lithuania 2003 – 2005 11 month (m<sup>2</sup>)**



**Export**

AB Dvarčionių keramika sales efforts are targeted to the Baltic countries. Last year sales to Latvia and Estonia reached 2,973 kLTL and increased threefold comparing with 2004 sales (946 kLTL.)

Sales to the Western Europe also increased, in particular to Benelux, which grew from 648 kLTL to 2,907 kLTL. Sales increase in this region proves high production standards that can satisfy particular requirements of selective customers from the West.

Potential of sales to Scandinavia region yet is not fully exploited. However the first sales steps were done to the biggest Scandinavian retail chain.

AB Dvarčionių keramika utilized the existing Opoczno's sales channels and increased it's sales in Poland, which in 2005 totaled 3,5 mLTL.

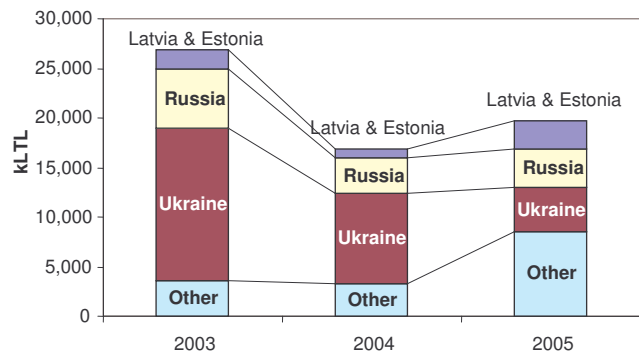
During 2005 export to Belarus more then double and reach almost 0.5 mLTL, though this region had relatively small total sales share.

Sales to Russia increased by 10% from 3,553 kLTL to 3,896 kLTL. Enterprise strengthened its position particularly in the Kaliningrad region.

Competitive environment, local producers strength and foreign producers concentration resulted in sales drop in Ukraine from 9,062 kLTL (2004) to 4,457 kLTL (2005).

Unstable political environment, which has a huge influence to local business, had negative impact to sales to Middle Asia. This region suffered 28 % sales drop from 2,374 kLTL to 1,715 kLTL.

**Sales in main foreign markets  
2003 – 2005 kLTL**



## 1.4 Production

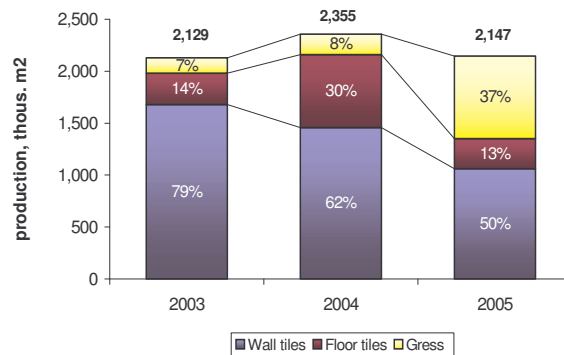
### Production volume

In 2005 production volume amounted to 2,147 thousand square meters and decreased 9% compared to equivalent period of 2004 – 2,355 thousand square meters. Improved production planning and working capital management allowed to achieve the increase in sales while maintain reducing the production costs and the production level.

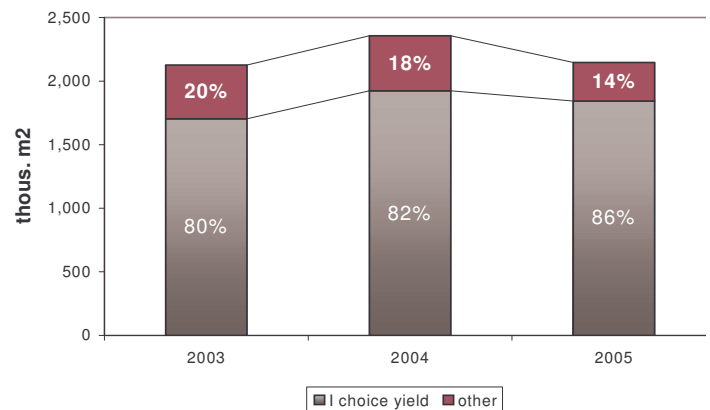
The positive trend was notice in the sales portfolio, with increase share in sales of the glazed gres tiles (which allow achieving higher margins).

Investments to the Plant and Equipment, automation of supplementary processes, employees' trainings resulted in increase in 1<sup>st</sup> choice yield. Finally the Company decided to close and disassemble the old SMK production line.

Production volume 2003 – 2005 (thousand m<sup>2</sup>)



Production output quality 2003 – 2005 (%)



### Optimization of the production process

In 2005 there were implemented number of technological improvements that allowed to optimize production costs:

### Innovations to new products development

In 2005 the Company started new products development and renewal of production assortment.

There was new production technology prepared and economy tiles introduced:

There were also collection tiles were introduced to the production process:

In 2005 the Company started toll manufacturing that allows to recovering the fixed costs and achieve better production efficiency. .

Gres tiles	29,7x29,7 cm	Brand	
Wall tiles	20x25 cm	GresTeq	6 designs
		Primacer	7 designs
Wall tiles	20x25 cm	DK	12 designs
Gres tiles	33,3x33,3 cm	DK	6 designs

## **1.5 Supply and logistics**

AB „Dvarčionių keramika“ has well developed and diversified supply chain. The following raw materials are mainly used for production: clay, feldspar, frit,

glaze and pigments, packaging material and other chemical supplements

Main suppliers of raw materials in 2005:

Nr.	Supplier	Raw Materials
1	AGROMAT PTK	Feldspar
2	IRIS CERAMICA	Frit, glaze and pigments
3	QUIMICER	Frit, glaze and pigments
4	FRITTA	Frit, glaze and pigments
5	TCG	Clay
6	MONDI PACKAGING WARSZAWA	Packaging
7	COLORES NOVI BALTICI	Chemical supplements
8	JUNELINTA	Packaging
9	OPOCZNO	Chemical supplements
10	FERRO SPAIN	Frit, glaze and pigments
11	LENBRA UAB	Packaging
12	TECHNOPRESS	Spare parts
13	HELMUT KREUTZ	Zirconium silicate
14	INDUSTRIE BITOSI	Milling stones

Fundamental materials such as glaze, frit, pigments, and materials for packaging are supplied by two and more suppliers. Other specific materials such as feldspar and clay are provided by one supplier with 4-6 weeks reserve. In order to prevent supplying risk, enterprise has a 12 months lasting partnership contract. Enterprise also has chosen alternative suppliers of raw materials for possible stoppages. Enterprise exploits its own clay quarry, which is used for production of the red body ceramic tiles. Own clay mine stabilize supplies, ensures the good quality for this material and allows the Company to keep the material costs down.

Reliability, service quality, transportations costs of raw materials financial results and recommendations have a great impact in choosing the right supplier. AB „Dvarčionių keramika“ has a world wide known suppliers of raw materials such as Arco (Iris-group), Fritta, Ferro with which it cooperates more then 5 years. Long term partnership allows to speed up the

new products development, information change also improvement in production and logistics processes.

In addition, for the purpose of gas and electricity supply AB „Dvarčionių keramika“ has long-term partnership contracts.

The company effectively manages the working capital as the average payment period for supplies exceeds 60 days

After became the part of the Opoczno Group AB „Dvarčionių keramika“ renegotiated its supplied conditions to Opoczno level, which allowed to save 365 kLTL annually in the supply chain.

In 2005 Enterprise decided to abandon the usage of own transportation vehicles for tiles deliveries. Negative impact of seasonality, particular changes in distribution market forced to sell company transportation. This decision resulted in more effective resources exploitation.

## **1.6 Quality management policy**

### **Quality and environment management system**

AB "Dvarčionių keramika" pays special attention to the quality of its products therefore introduced the quality management system which is compliant with the ISO 9001:2001 quality system. The quality system is operating since 1999.

AB "Dvarčionių keramika" pays attention to the local environment it operates, therefore in 2002 implemented the environment protection system that is compliant with ISO 14001.

In 2005 DNV performed in AB "Dvarčionių keramika" audits of both 9001 and 14001 systems that proved the compliance with the standards and the quality and environmental policy certificates were extended until September 2008.

### **Accredited tile testing laboratory**

AB "Dvarčionių keramika" operates tile testing laboratory accredited by Lithuanian National Accreditation Bureau since 1988.

In April, 2005 Lithuanian National Accreditation Bureau audit confirmed that the testing laboratory of AB "Dvarčionių keramika" operates to the requirements of EN ISO/IEC 17025 standard. Enterprise received the certification valid till 2009, which gives the right to conduct the tests and selection of ceramic tiles under the new standards LST EN 14411. On the basis of conducted evaluation AB "Dvarčionių keramika" marks production CE.

During 2005 AB „Dvarčionių keramika" accredited tile testing laboratory certified 100 testing protocols and participated in two comparable testing scoring positive results.

In May, 2006 Enterprise have already planned to conduct external auditing for the accredited tile testing laboratory on the basis of new edition of the standard LST EN ISO/IEC 17025:2005 . Lithuanian National Accreditation Bureau will execute supervision audit.

## **1.7 Human resources**

Appearance of the Strategic investor Opoczno S.A. imposed some changes on the functioning of AB „Dvarčionių keramika“.

The new management brought the new view to the business philosophy. The Company and all the units became more results oriented, setting and achieving the goals, increasing speed of activities.

In order to improve the decision making process and reduce the operating costs, the organization structure was simplified, headcount level optimized.

Special attention was paid to selection of people for the managerial positions, development of staff and internal communication.

In many numerous areas of business Dvarčionių keramika received the know-how transfer from its parent Company.

In 2005 the Company modified its motivation systems to align staff performance to the results achieved by the firm.

During 2005 Enterprise experienced significant changes in top management. The new employees took the positions of the vice-president, Sales and Marketing Director, Production and Technology Director and Finance Director. This injection of the new blood brought to the Company the restructuring and managerial skill, technological skills and allowed the transfer of the know-how to the other employees.

### **Collective agreement**

Collective agreement defines the employment conditions including payment specifications, operation organization, personal security, working

days – holidays terms and other social and economical conditions.

On the 21<sup>st</sup> of December, 2005 labor conference confirmed renewed collective agreement addition, which linked employees motivations system with operating results and at the same time reinforced potential salary increase possibilities.

### **Staff Development**

The company makes it a priority to invest, above all, into its present employees and to take advantage of internal potential. For this purpose it aims to train its employees by means of external courses and on-the-job training. The Company spent 109 kLTL in 2005 on employees training, that allowed to train 25% of the total workforce for in-service training of the employees.

The company encourages not only external but also internal trainings and sharing of experience among functional divisions.

### **Safety at Work**

The company has established proper and safe working conditions. Expenses for safety and health at work amounted to 21 thousands Lt. Assessment of professional risk was performed in 2005. Starting from 01-01-2006 the company pays smaller differentiated Group 3 contribution to the Social Security Fund. No accidents at work occurred during 2002 - 2004 calendar years and therefore the company was attributed to the Group 3. Only one unserious event related to work happened during 2005.

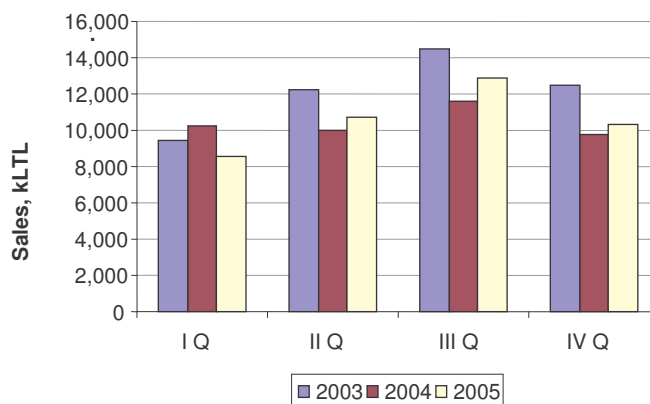
## 1.8 Financial Condition

### Income

Income from sales amounted to 42,442 thousands Lt in 2005 or was 2 % higher than in 2004.

The increase was achieved as a result of the more active sales, increasing frequency of visits to customers, acquisition of the new customers and introduction to the market of the economy segment tiles.

Positive trends in sales are visible from the 2<sup>nd</sup> quarter comparing with the same period of 2004.



Quarterly revenues 2003-2005

**Production Costs** Production costs constitutes 72% of the income from sales giving the gross profit of 28% (comparing with 36% in 2004). The main reason of decrease in the gross profit margin was sale off of tiles in the first quarter the Company also faced the market pressure on prices, in particular from DIYS – introduction of economic product with lower profitability and obsolescence of collections, which influenced reduction of their prices and, at the same time, of their profitability.

### Sales Expenses

Sales expenses in 2005 decreased down to 606 thousands Lt, and its relative share in income from sales went down by 2%. The reduction of expenses was determined by the fact that previously unprofitable retail trade points were closed.

### General and Administrative Expenses

2005 saw reduction of administrative expenses from 7,937 thousands Lt in 2004 to 6,788 thousands Lt in 2005 m. (a decrease by 14.5%, and relative share in income from sales decreased by 3%). The main reason of the decrease in administrative expenses – optimization of staff level and renegotiation of the service contracts.

### Expenses of Financial Activities

In 2005 the financial expenses increased from 4,017 thousands Lt to 6,280 kLTL, or by 2,263 kLTL (56%). Increase of financial expenses was determined by losses incurred by strengthening of USD, which enlarged financial liabilities of the company. A loan taken from Hansabankas AB in September allowed not only to eliminate influence of F/X fluctuations but also to significantly reduce interest expenses.

## Results of Operation

The Company finished 2005 with a net loss of 2,766 thousands Lt.

The losses was a result of the foreign exchange losses, incurred on USD dollar loan, decrease of 2,224 kLTL margins on sales and restructuring costs (including redundancy payments). The result of restructuring should be fully visible in 2006.

As a result of better cost control the Company managed to increase the operating profit up to 1.6 million LTL (in 2004 – 15.4 million LTL loss)

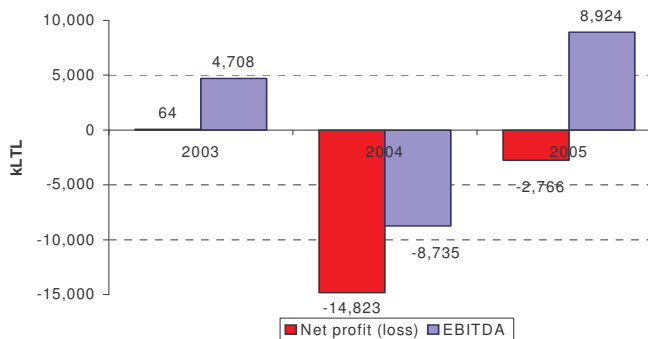
The Company significantly improved its ability to generate cash. EBITDA for the 2005 almost reached 9 millions LTL ( 21% EBITDA margin), which is more than 1.5 times the value of the index for 2004 (after elimination of the one off write-offs)

Due to losses suffered in the least years, the index of capital adequacy became lower than the minimum rate as provided in the Law on Stock Companies of the Republic of Lithuania (50%). The management of the company will submit offers for rectification of such situation according to the procedures laid down in the law.

## Insurance

All the assets of the company are insured. The company has also insured its civil liability and commodity loans.

**Dynamics of Indices of the Company's Profitability 2003 – 2005**





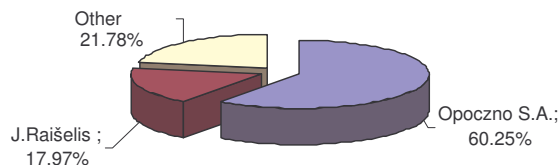
## 2 SHARES AND SHAREHOLDERS OF THE COMPANY

### Change of the Main Shareholders

On 9 March 2005 the controlling interest of the company (60.25%) was acquired by Opoczno S.A. from the previous shareholders.

The purchase of Dvarčionių Keramika AB is just the first step in international expansion of Opoczno S.A. The main shareholder aims at acquiring strong positions in Central and Eastern Europe not only by organic growth but also through the acquisitions.

Structure of the Company's Shareholders  
As of 31 December  
2005



### Price of the Company Shares

When the controlling interest of the company was purchased by the strategic investor Opoczno S.A. on 9 March 2005, the price of the company's shares in the stock exchange rose rapidly from 2.00 LTL per share to 3.65 LTL per share. In spite of short-time correction, which usually follows rapid increases, the prices continuously rose and in September it reached 5.00 LTL for a share. On 31 December 2005 the shares of the company were traded at 4.21 Lt per share.

One of the main goals of the company's management is to establish firm and long-term conditions for increase in the value of the Company.

Trade in Shares of Dvarčionių Keramika AB in Vilnius  
Stock Exchange in 2005 m.  
Source: Finasta AB FMĮ



### The company's own shares acquired or transferred during the accountable financial year

None.

### Most important events for the company during the current year before ordinary general meeting

None.

### Subsidiaries of the company

Dvarčionių Keramika SIA – under liquidation..

### Share in other companies

The company owns 30% of shares of Baltijos Keramika UAB. During the 2005, the company did not acquire shares of any other companies.

### Branches and agencies of the company

None.



### 3 PLANS AND FORECASTS FOR ACTIVITIES OF THE COMPANY

#### Strategy of the Group

After arrival of the strategic investor, the company aims to integrate its strategy and activities with general strategy of the Opoczno S.A Group (hereinafter referred to as the Group).

The elements of the strategy of the Group are as follows:

- General vision – to help creating enjoyable, cozy and modern interior at home and in working environment;
- Unfitted portfolio of products and division of market between the companies within a Group;
- Allocation of production to the production facilities depending of the technological possibilities and unit production costs and transportation costs.
- Distribution of products is carried out while taking into account distance to a market, knowledge of it, and economic factors;
- Integration of certain processes (product development, marketing, quality control, human resources management etc.) or close cooperation;
- Strategy of joint communication with the third parties.



#### Activity Tasks for 2006

Bearing in mind the long-term strategic goals of the Group, market situation, and internal possibilities and resources a plan for activities of the company for 2006 was prepared.

The principal goals of the company for 2006 include:

- To achieve positions of market leader in all the Baltic countries by means of complete distribution of the Group products;
- Active expansions into markets that are close geographically – Byelorussia, Scandinavian countries, the Kaliningrad Region;
- To stabilize sales in CIS countries;
- Speed up reaction to the market changes, preparing the new collections twice a year;
- To further optimize internal processes (production and logistics) and reduce operational expenses;
- Optimize usage of production capacities;
- To improve image of the company and increase confidence in the company by the third parties;
- To create working environment that is interesting to work in, to provide opportunities for improvement and development. To become an attractive employer.

The new collection: "FLORA"



Management Board Chairman

J.Raišelis

Vilnius, 25 February 2006