# DVARČIONIŲ KERAMIKA AB

## Independent Auditor's Report, Annual Report and Financial Statements for the year ended 31 December 2006

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# Information about the Company

**Dvarčionių keramika AB**

| | |
|---|---|
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| Situated in: | Keramikų 2, Vilnius, LT-10233 Lithuania |
| Web page: | www.keramika.lt |

**Management Board**

| | |
|---|---|
| Juozas Raišelis | President |
| Vygintas Bartasevičius | Sales and Marketing Director |
| Audris Imbrasas | Purchases and Logistics Director |
| Mindaugas Bučas | Production and Technology Director |
| Geraldas Kudrevičius | Finance Director |

**Auditor**

Deloitte Lietuva UAB

**Banks**

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

# INDEPENDENT AUDITOR'S REPORT

To the shareholders of Dvarčionių keramika AB:

**Report on the Financial Statements**

We have audited the accompanying financial statements (page 35 to 57) of Dvarčionių keramika AB, which comprise the balance sheet as of 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dvarčionių keramika AB as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
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**Report on Other Legal and Regulatory Requirements**

Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2006 (page 5 to 34) and have not noted any material inconsistencies between the historical financial information included in it and the financial statements for the year ended 31 December 2006.

Deloitte Lietuva UAB
General Director Juozas Kabašinskas

Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

Vilnius, Lithuania
26 February 2007

# Annual report

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

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

#### 1.1.1. General overview

Company’s key performance indicators for the period 2003 - 2006:

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Sales revenue, LTL’000 | 48.578 | 41.604 | 42.442 | 56.923 |
| Gross profit, LTL’000 | 13.138 | 15.052 | 12.049 | 15.553 |
| Gross profit margin, % | 27% | 36% | 28% | 27% |
| Operating profit, LTL’000 | -1.323 | -15.052 | 1.675 | 1.876 |
| Operating profit margin, % | -2,7% | -36,2% | 3,9% | 3,3% |
| EBITDA, LTL’000 | 4.708 | -8.735 | 8.924 | 9.233 |
| EBITDA margin, % | 10% | -21% | 21% | 16% |
| Net profit, LTL’000 | 64 | -14.823 | -2.766 | 99 |
| Net profit margin, % | 0,1% | -35,6% | -6,5% | 0,2% |
| | | | | |
| Return on assets, % (ROA) | 0,1% | -18,6% | -6,5% | 0,1% |
| Return on equity, % (ROE) | 0,1% | -62,7% | 11,3% | 0,4% |
| Profit per share, LTL | 0,006 | -1,497 | -0,28 | 0,01 |
| | | | | |
| Total assets, LTL’000 | 106.596 | 79.873 | 81.659 | 82.131 |
| Shareholders equity, LTL’000 | 38.458 | 23.635 | 24.507 | 24.606 |
| Non current debt, LTL’000 | 38.078 | 28.537 | 42.656 | 37.018 |
| | | | | |
| Working capital, LTL’000 | -5.923 | -9.116 | 7.628 | 7.569 |
| Net change in cash flows, LTL’000 | 609 | 43 | 250 | 762 |
| | | | | |
| Investments, LTL’000 | 19.938 | 213 | 482 | 1.165 |
| Production volume, thousand m2 | 2.108 | 2.360 | 2.147 | 2.311 |
| | | | | |
| Number of employees (end of period) | 466 | 366 | 286 | 303 |
| Average salary, LTL/month | 1.475 | 1.296 | 1.774 | 2.101 |

Sales revenue for 2006 was a record in history of the Company and amounted to 56,9 million LTL. The growth in sales revenue was influenced by increased sales both in local market, as well as in exports (for details see note 2.1.1).

The Company earned 15,6 million LTL of gross profit and 3,5 million LTL more than in previous year. Gross profit margin in 2006 amounted to 27% (Y2005: 28%). Gross profit margin level is influenced by changes in sales revenue structure, pricing and COGS. Sales prices are dependant on structure of customer and product portfolio, competitors’ actions and consumer purchase power. COGS are dependant on level of utilization of production capacity, and changes in prices of separate production costs items.

Operating profit for the year 2006 amounted to 1,9 million LTL (Y2005: 1,7 million LTL). Operating profit could be higher, but it was reduced due to increased staff costs (increase 0,6 million LTL) and transport costs (increase 0,4 million LTL). Growth of these costs is mainly associated with increase in macro economical labour and transport costs.

Net profit for the year 2006 amounted to 0,1 million LTL. If compared to the previous year, the net profit increased almost for 3 million LTL. The major influence for increase in net profit was results of refinancing of loan portfolio, which took place at the end of 2005. The refinancing enabled the Company significantly reduce cost of loans and eliminate risk of negative change of foreign currencies.

EBITDA in 2006 amounted to 9,2 million LTL and EBITDA margin to 16% and grew up by 0,3 million LTL compared to the previous year (8,9 million LTL and 21%). Decrease in EBITDA margin was influenced by increased production costs (gas, labour) as well as operating costs (staff, transport).

Working capital at the end of 2006 amounted to 7,6 million LTL and was very close to Y2005. Stability of this ratio indicates, that even having fast growth, the Company maintains control over liquidity.

Investments for the year 2006 amounted to 1 million LTL and it was more than twice of investment level for the year 2005. Investments were more of maintenance kind and directly associated with balancing of cash flows.

Production volume for the 2006 amounted to 2,3 million m2 and this enabled utilization of capacities for more than 80% which is by 8% more than in previous year (Y2005: 2,1 million m2). It is important to notice that production volume grew up due to introduction of new higher profitability products.

Number of employees in 2006 grew up from 286 to 303 or by 6%. Major increase in staffing was in trade and production departments. The increase in number of employees is associated with the increased volume of operations.
Average monthly salary per employee increased to 2,1 LTL'000 and grew up by 18% compared to previous year (Y2005: 1,8 LTL'000). This increase was influenced due to employment of new, high qualification people as well as increase salaries for existing employees in order to be able to control level of retirement.

The Company was awarded the nomination of 'Successfully working company 2006'. The nomination was granted for the results of efficiency development.
In addition one of new tile collections 'Matera' was awarded 'Product of the year' and won a gold medal.

### 1.2. Specification of main risks which the Company encounter

Economical:

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

Technical – technological:

- Prices of resources – forces constantly look for possibilities how to eliminate negative price effect – look for new suppliers, introducing new elements to composition of the product, implementation of innovative solutions;
- Price of energy – forces to look for more efficient exploitation of the resources (recuperation systems);
- Machinery and equipment – in the process of exploitation machinery goes out of order. The reasons for this are both external (break of power supply) and internal (skills of people). In order to reduce

machinery stoppage time strong focus is made on on-time maintenance, trainings of maintenance staff.

Ecological:

- The Company operates in accordance with the requirements of ISO 14001 standard. The Company has internally approved environmental policy as of 2005 10 27;
- Waste which is generated as an outcome of production process is reprocessed by own specialised equipment;
- The Company has not received any fines or sanctions for 2006.

Social:

- Negative migration – young people and experienced specialist emigrate to higher salaries' countries;
- The shortage of people with adequate qualification and motivation;
- Growth of average salaries.

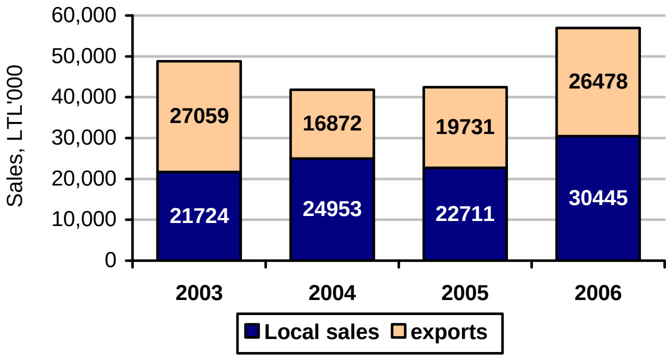
## 2. Analysis of financial and non-financial results, information associated with environment and personnel

### 2.1.1. Sales

In 2006 sales were the biggest in the history of company and reached 56,9 millions LTL. In comparison to 2005 an increased by 34%. The sales growing tendency occurred for a all-year period beginning from 1st quarter +29,8%, 2nd quarter +20,7%. However already in the second-half of year, after beginning sale of new collections, the rate of increase became more intensive (3rd quarter -39,9%, and 4th quarter +44,8%).

The main market remains Lithuania (53,4% of all sales), in which sales are done as directly – through 13 shops retail chain, as indirectly – through wholesalers. Sales in Lithuania grew by 34%, however, a larger increase in composed in export sales- 34%. An increase of local sales in the absolute aspect is also exceeded export sales almost 1 million LTL - export sales in 2006 grew 6,7 million LTL, domestic sales 7,7 million LTL.

In 2006 the tendency of sales in Lithuania became positive - thus far being decreased sales, strongly grew up. It was possible to direct the positive tendency of export sales already in 2005, but the basic break occurred in 2006, when was exceeded the record level of export sales achieved in 2003. These tendencies show the successful result of the development of the sales markets and the product strategy.




**Domestic and export sales Years 2003 – 2006**

Company's strategic task remains is maintains and further strengthening its leading position in the domestic market.

From the other side, company actively tries to win the leading position on all three Baltic markets and to engage important positions in other adjacent markets.

### 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 middle-sized towns. Own-branded shops are selling not only company's production, but also Opoczno production, Spain producer's tiles, sanitary equipment, materials for tiles pasting, also the services of professional designer are provided there.

Sales in Lithuania in comparison to the 2005 increased 34 % from 22,6 million LTL up to 30,4 million LTL. Basic reasons for increase - introduction of 6 new collections and the active sales and marketing actions on the market.

Ceramic tiles imports to Lithuania leader is Poland, which market share reaches 45%. Spain and Italy producers share 20,8% and 12% of Lithuanian market respectively, but their presence at the market falls relatively. China's production availability has increased sharply, its market share stood at the point of 10% in 2006. The volume of imports in 2004 increased by 32%, and in 2005 – by 18%, in 2006 increased of import reached just 5,5 %. The raise of imports was called by the extensive expansion of retail supermarkets in 2004 – 2005, in 2006 showed the signs of stabilization and increase was equaled with a total increase in the construction market.

The market of ceramic tiles in Lithuania in 2006 in compare to 2005 stay in similar level ( 2005 +18%; 2004 +32%), while company's own production sales in 2006 reached 1,191,005 $m^2$ or 12 % more than in 2005. This increase was called by company by Opoczno products sales by company in Lithuania.

Overall market share of group products in Lithuania reached 26 % in 2006.

**Export sales**

Company's basic markets for sales are the Baltic states, in 2006 sales in these countries reached 43 million LTL and grew 69% in the comparison with 2005.(25,4 million LTL). Sales in Latvia and Estonia together increased five times comparing with 2005 and reached 12,6 million LTL.

The sales to West region in 2006 stay in similar level like 2005, however work made in 2006 begins to give results in the much larger volume in the West zone market.

Although the small part of sales, in20 06, export sales in Byelorussia grew by 70% and reached almost 0,7 million LTL. In 2006 the initiated expansion of distribution in the regions gives possibility to a mean increase in sales on this market.

Sales to Russia decreased 23% in comparison to 2005, from 3,9 million LTL till 3,0 million LTL, however in the second part of 2006, after introduction of new collections started grow shows, that possible they increase in the future. Company strengthened its position in Kaliningrad region and start expansion in the other regions enlisted new clients.

Sales in Ukraine marked decreased 19 % in comparison to 2005, from 4,5 million LTL till 3,6 million LTL. Basic reason - stronger local producers and the concentrated forces of gross foreign producers, but as in Russia, sales into the Ukraine in the second-half of year became more intensive.

Sales in Middle Asia in 2006 decreased by 24 % - from 1,7 million LTL till 1,3 million LTL. The instability of sales in this region is connected with the instability of the business environment.

### 2.1.2. Supply and logistics

Fundamental materials such as glaze, frit, pigments, 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 (was done experimentation with raw materials) alternative suppliers of raw materials. Enterprise exploits it's own clay quarry. This source of specific main production material helps to reduce the risk in clay supply. This source of clay is used for the wall tiles production.

Reliability, raw materials and service quality, transportations costs of raw materials, environment requirement, financial results and recommendations have a great impact in choosing the right supplier. AB „Dvarčionių keramika" has a world wide known suppliers such as Arco (Iris-group), Fritta S.L. , Ferro S.L. and cooperates more then 5 years. Long term partnership allows to save lot's of time in new products development, information change also improvement in production and logistics processes. With gas and electricity suppliers AB „Dvarčionių keramika" has long-term partnership contracts

The necessary for the production equipment are bought from foreign producers, from which lately obtain the spare parts.

In 2006 was begun the optimization of storages (renovation of stacker park, the expansion of the places of storing, the renovation of software), which will make a company more flexible under the conditions of the changing market.

### 2.1.3. Production

**Production volume**

In 2006 production volume amounted 2,311 thousand $m^2$ and increased 8 % in comparison with 2005 – 2,147 thousand $m^2$ . In 1st quarter of 2006 was produced new collection, what had negative influence to total production volume. Relative value: wall tiles 66 %, gres tiles – 34 %

**Choice of production**

Production of the new collections in 1st quarter and changes of organizational structurein the 2nd quarter gave negative result for the grade of tiles, which in the comparison with 2005 decreased from 3 % to 83 %. But mentioned changes gave a good result into 4th quarter, choice of tiles increased 90 %.

**Optimization of the production process**

In 2006 started TINTORETO program, which let reduce assortment of pigments 5 times in 2007.

**Innovations to new products**

In 1st quarter of 2006 was proceed introduce of new collection.
In 1st quarter 6 new collection started produce:

| | | | |
|---|---|---|---|
| Wall tiles | 250x350 | Herba, Juta | 10 types |
| Wall tiles | 250x400 | Flora, Matera, Leda, Xeno | 17 types |
| Gres tiles | 333x333 | Herba, Matera, Leda, Xeno | 13 types |

2 new collection started produce in 4th quarter:

| | | | |
|---|---|---|---|
| Wall tiles | 250x400 | Lacy, Game | 16 types |
| Gres tiles | 333x333 | Lacy, Game | 6 types |

### 2.1.4. Management of quality and environment issues

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

There were renewed and approved quality and environment safety policies on October 27, 2005 to be followed in 2006.

**Quality and Environment Safety foreign auditing and results**
On September 29, 2006 UAB “Det Norske Veritas” performed periodic ISO 9001 & 14001 quality and environment safety management foreign audit. As the result, there were determined common 2 notices and 4 improvement possibilities.

Quality and environment safety management systems recognised as valid: certification valid until September 30, 2008.

The following quality and environment safety management system supervision estimated in August/September, 2007.

**Certified Experimental Lab**

AB “Dvarčionių keramika” Certified Experimental Lab certified in 1988.

Supervision audit performed by National certification bureau in May 2006 certified Lab conformity to renewed EN ISO/IEC 17025:2006 standard requirements. The Lab received certified certification for the period of July 2009. The certification entitles AB „Dvarčionių keramika” laboratory to issue EC conformity certificates for the company production according to LST EN 14411 standard, based on it AB ”Dvarčionių keramika” production has been marked using CE mark.

During 2006 AB „Dvarčionių keramika" Certified experimental lab issued 39 experimental protocols and took part in 2 inter-laboratory comparative experiments together with VGTU Thermo insulation institute, Construction material laboratory. The results of comparative experiments showed positive.

For the external services performed to the clients, 5,737 LTL income received.

The technical head of the laboratory had open trainings in relation to renewed LST EN ISO/IEC 17025:2006 standard changes and their implementation.

No client complaints in regards to the activity of the laboratory in 2006 were received.

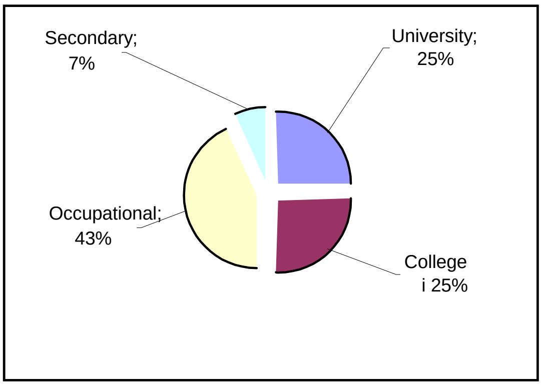
National certification bureau to perform planned Certified laboratory foreign audit in September 2007.

### 2.1.5. Human resources

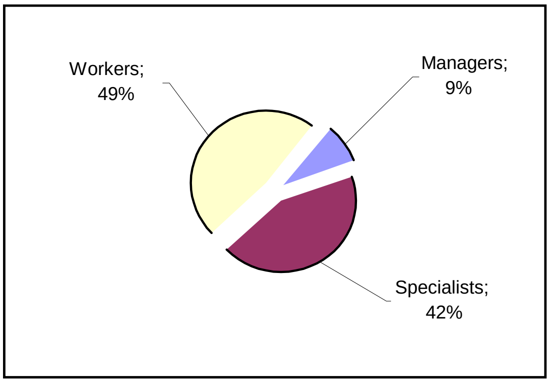
Major HR strategy changes of the company were related to strategic investor Opoczno S.A. involvement into Company's management processes. 2006 was the year of important company group structure, management, organization culture, services, sales and customer service quality changes, tangible attention was concentrated on Opoczno S.A. and AB "Dvarčionių keramika" cooperation, common business and exchange of specific professional skills and knowledge.

In order to develop job oriented organization culture and motivate employees to achieve financial and non-financial company targets and goals thus aspire to retain the best specialists in the market, Employee motivation and attraction structure was in the process of development in 2006 ("The best employee of the year", employee accident insurance), as well as Employee social program.

**Employees**
At the end of 2006, there were 303 employees in the company when 286 - at the end of 2005.
Distribution of Employee job positions at AB "Dvarčionių keramika":




**Employee education**




**Distribution of Employee job positions**

In 2006, 42% of employees were 30-40 years old, 24% of employees – 40-50 years old and 32% of employees over 50 years old.

Efficiency of HR management at AB "Dvarčionių keramika" demonstrates loyalty of 45% of entire company employees that work over 5 years within the company.

One of the most important HRM processes in the company for 2006 – implemented Employee Loyalty program, planned and implemented company Employee annual job appraisal, concluded evaluation of job competencies. The above-mentioned processes resulted more efficient company's influence on its employee behavior and manage their activities by aligning it with the set targets and credible results. Evaluation of Employee competencies highlighted their training and development needs and continuous development opportunities.

**Collective agreement**
There are several important agreements on Employee, working in the company, job contracts, agreement between Union and company regarding working conditions, payroll process administration, employee safety, working and free time and other social/economical conditions.

**Training & Development**
The essential for company successful activities – creative and continuously developed employees, fearing no responsibility for the decisions taken and continuous search for the best and new work implementation forms, effective problem solving ways. Employee training and qualification is based on company Quality management system ISO 9001 procedures. 30% of company employees took part and been trained mainly on EU supported projects. 150,000 LTL spent on company employee training. Not only open trainings are offered but also in house trainings are popular for sharing the professional knowledge within company sectors.

**Work and Health safety**
There are suitable and safe working conditions in the company. Expenses on work and health safety (Work clothes, footwear, individual safety means, hygiene and sanitary means; medial health checkup; evaluation of professional risk) concluded 38,000 LTL. Due to the lack of accidents at work places, AB "Dvarčionių keramika" has been assigned to the group III and lower differentiated payments to the national security fund (SODRA)

**3. Links and extra clarifications about data in financial statement**
None

**4. Quantity of all existing and acquired shares of company and their par value and the part of regulation capital, which compose these shares**
Authorized capital registered in the register of enterprises– 19 810 920 LTL
Capital is divided by 9 905 460 simple nominal shares.
Par value of 1 share - 2 LTL
All shares of company are completely paid.

**5. The company's own shares acquired or transferred during the accountable financial year and their par value and the part of regulation capital, which compose these shares**
None.

**6. Information about the payment of own shared if the was acquired or transferred for payment**
None

**7. Reason of acquisition of own shares during the accountable financial year**
None

**8. Information about company's branches and agencies**
None

**9. Important events for the company's during the accountable financial year**
None

**10. Company's activity plans and forecasts**
Company account the policy off the record activity plans and forecasts..

**11. Information about the research and the development activity.**
Company constantly searches for the means for an increase in the effectiveness of activity using contemporary technologies and the solutions.

**12. When the Company uses financial derivatives and when it is important for valuation of the Company's assets, shareholders equity, liabilities, financial status and results, the company disclose the goals of financial risk management, used hedging instruments which are accounted as such for main groups of planned transactions as well as extent of pricing risk, liquidity risk and cash flow risk.**
None.

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

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

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLICABLE | COMMENTARY |
|---|---|---|
| **Principle I: Basic Provisions**<br><br>**The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.** | | |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | No | The Company has prepared development strategy, which is an explicit part of Opoczno S.A Group strategy which is publicly announced. The Company separately has not announced its strategy. |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes | All mentioned governing bodies are focused on achievement of goals and objectives, specified in the Company's strategy. |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Yes | Decisions of all significant questions are made by the Management Board, and execution of the decisions is delegated to functional managers. Ordinary meetings of the Management Board take place once a month, extraordinary – according to initiative of the Chairman or member of the Board. Functional manager are invited to attend the Board meeting, if the question discussed relates to their area of responsibility. The Management Board on a quarterly basis approve financial results and account for them to the Supervisory Council.<br><br>Monthly management accounts are prepared on a monthly basis and submitted to the parent company. |
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. | Yes | The Company seeks to ensure rights of all major stakeholders. |

**Principle II: The corporate governance framework**

**The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**

| | | |
|---|---|---|
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | Yes | The Company keeps in line with the recommendation. Its governing bodies are: general meeting of shareholders, Supervisory Council, Management Board and chief executive officer. |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. | Yes | Company's collegial management body is Management Board; collegial supervisory body is Supervisory Council. |
| 2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. | Not applicable | The Company has both Management Board and Supervisory Council. |
| 2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. | Yes | The collegial supervisory body is elected by general meeting of shareholders and operates according III and IV principles of the Code. These principles are applied to the Management Board to the extent they do not contradict the essence and purpose of the Management Board. |
| 2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. | Yes | The Management Board comprise of 5 members, all of them are executives. Supervisory Council comprise of 7 members, which represent rights of shareholders having more than 5% voting rights. Only 1 member of the Supervisory Council is also an employee of the Company. |
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the | Yes | The performance of the Supervisory Council is outlined in the Regalement. The Regalement specifies the duration of service of member of the Supervisory Council (i.e. 4 years). It is not forbidden to re-elect the member of the Supervisory Council. |

| | | |
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| management board. | | |
| 2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision. | Yes | The Company keeps in line with the recommendation when implementing in practise. The Chairman of the Supervisory Board has not been the chief executive officer of the Company. |
| **Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting**<br><br>**The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.** | | |
| 3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. | Yes | The mechanism of construction of the Supervisory Council enables to ensure objective and fair monitoring of the company's management bodies.<br><br>Only a person having adequate qualification (in the specific industry, or experience in management, law and etc.) can be elected to the member of the Supervisory Council.<br><br>6 out of 7 members of the Supervisory Council are independent (not employees of the Company).<br><br>In addition, these members represent rights of shareholders which have than 5% of voting rights. This enables to ensure effective security of shareholders rights.<br><br>The Company has not provided any obstacles for minority shareholders to delegate their representative to the Supervisory Council. |
| 3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. | Yes | The Company partially keeps in line with this recommendation: the names of the candidates to the Supervisory Council are announced in advance. For more details about the candidates, the shareholders can get informed by attending the respective shareholders meeting and raising questions. |

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| 3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body. | Yes | The Company partially keeps in line with this recommendation: during the respective shareholders meeting, shareholders are informed about the candidate, his/her qualifications, and suitability for service. Shareholders can raise questions and discuss.<br><br>According to the information received each shareholder express his/her opinion by voting. |
| 3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. | Yes | The members of the Supervisory Council posses different however big experience in the construction materials' sector, finance and law. This shows objective balance between the competencies of individual members of the Supervisory Council. |
| 3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge. | Yes | New members of the Supervisory Council are provided an opportunity to get acquinted with internal documentation of the Company, business processes. This knowledge is updated periodically, because the Management Board provides the analysis of the performance. |
| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members. | No | Until now the have been no practice of valuating the independence of the member of the Supervisory Council. The Company also has not specified the notion of 'sufficiency of independence' of the member of Supervisory Council. |
| 3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:<br><br>1) He/she is not an executive director or | No | The Company's financial statements disclose the related parties' transactions as required by the international financial reporting standards. Transactions between the related parties are made in line with arm's length principle.<br><br>No other means to valuate the independence of members of governing bodies are applied because they are not specified in any of the internal documents of the Company. |

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| member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;<br>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;<br>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);<br>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);<br>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;<br>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;<br>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;<br>8) He/she has not been in the position of a member of the collegial body for over than 12 years; | | |

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| 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.<br><br>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. | | |
| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | No | The Company also has not specified the notion of 'sufficiency of independence' of the member of Supervisory Council. |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | No | The Company has not applied practice of valuating independence of the members of the Supervisory Board. |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration. | Not applicable | Members of the Supervisory Board are not paid for their service. |
| **Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting**<br><br>**The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.** | | |
| 4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor | Yes | The Supervisory Board monitors and controls the activities of the Company, organizes regular meetings, on which the Management Boards accounts for the results; also provides recommendations for improvement of efficiencies. |

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| and control the company's management performance. | | |
| 4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | Yes | The Company keeps in line with the recommendations. |
| 4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified. | Yes | The Company keeps in line with the recommendations. The members take active role in meetings, devote sufficient time and attention to perform his duties. |
| 4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders. | Yes | The Company keeps in line with the recommendations. |
| 4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision. | Yes | Transactions between the Company and its shareholders, members of the Management Board and Supervisory Council and other natural or legal persons that exert or may exert influence on the company's management are made in approved according the procedures specified in the Articles of the Company. |
| 4.6. The collegial body should be independent in passing decisions that are significant for the | Yes | The Management Board provides to the Supervisory Council all information necessary |

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| company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. | | for making decisions, provides answers to the questions, however do not make any influence on the independence of the members of the Supervisory Council. |
| 4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole. | Yes | The members of the Supervisory Board have certain influence on various aspects of the Company's activities. They control the Management Board, can recall any decision by the Management Board, if it is not in the best interests of the Company, including adjustments regarding improper level of remuneration. |
| 4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of | No | The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council. |

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| competence. | | |
| 4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. | No | The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council. |
| 4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion. | No | The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council. |
| 4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities. | No | The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council. |
| 4.12. Nomination Committee. | No | The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council. |
| 4.12.1. Key functions of the nomination committee should be the following:<br><br>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment | | |

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| expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;<br>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;<br>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;<br>• Properly consider issues related to succession planning;<br>• Review the policy of the management bodies for selection and appointment of senior management. | | |
| 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee. | | |
| 4.13. Remuneration Committee. | No | The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council. |
| 4.13.1. Key functions of the remuneration committee should be the following:<br><br>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br><br>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br><br>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; | | |

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| • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);<br><br>• Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. | | |
| 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:<br><br>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;<br><br>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;<br><br>• Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. | | |
| 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. | | |
| 4.14. Audit Committee.<br><br>4.14.1. Key functions of the audit committee should be the following:<br>• Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);<br>• At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;<br>• Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal | No | The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council. |

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| audit authority in the company, the need for one should be reviewed at least annually;<br>• Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;<br>• Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;<br>• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.<br><br>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.<br><br>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.<br><br>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. | | |

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| 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.<br><br>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.<br><br>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. | | |
| 4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. | Yes | The collegial body conducts the assessment of its activities. |

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| **Principle V: The working procedure of the company's collegial bodies**<br><br>**The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.** | | |
| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a | Yes | The Company keeps in line with the recommendation. |

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| collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting. | | |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month. | Yes | The Company keeps in line with the recommendation. |
| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution. | Yes | The Company keeps in line with the recommendation. |
| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed. | Yes | The Company keeps in line with the recommendation. |
| **Principle VI: The equitable treatment of shareholders and shareholder rights**<br><br>**The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.** | | |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | Yes | The company's capital consists only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they | Yes | The Company keeps in line with the recommendation. |

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| purchase shares. | | |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | Yes | Transactions are made on the basis prescribed in the Company's Articles. |
| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them. | Yes | Procedures of convening and conducting a general shareholders' meeting ensure equal opportunities for the shareholders to effectively participate at the meetings and not prejudice the rights and interests of the shareholders. |
| 6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | No | Resolutions are publicly announced only using Stock exchange information system and in press. |
| 6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | The Company keeps in line with recommendation. |
| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the | No | Only traditional voting means (raising hands) are used. |

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| opportunity to watch shareholder meetings by means of modern technologies. | | |
| **Principle VII: The avoidance of conflicts of interest and their disclosure**<br><br>**The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.** | | |
| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes | The Company tries to stay in line with the recommendation. |
| 7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting. | Yes | No significant transaction between the Company and its governing bodies took place in 2006. |
| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | Not applicable | |
| 7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on. | Not applicable | There were no such cases in 2006. |

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| **Principle VIII: Company's remuneration policy**<br><br>**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.** | | |
| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website. | No | No such practice has been used in the Company. |
| 8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year. | No | No such practice has been used in the Company. |
| 8.3. Remuneration statement should leastwise include the following information:<br>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;<br>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;<br>• Sufficient information on the linkage between the remuneration and performance;<br>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;<br>• A description of the main characteristics of supplementary pension or early retirement schemes for directors. | No | No such practice has been used in the Company. |
| 8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies. | No | No such practice has been used in the Company. |
| 8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. | No | |

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| 8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory. | No | No such practice has been used in the Company. |
| 8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. | No | No such practice has been used in the Company. |
| 8.7.1. The following remuneration and/or emoluments-related information should be disclosed:<br><br>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;<br><br>• The remuneration and advantages received from any undertaking belonging to the same group;<br><br>• The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;<br><br>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;<br><br>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;<br><br>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. | | |
| 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:<br><br>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;<br><br>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share | | |

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| incentive scheme at the end of the financial year;<br><br>• The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;<br><br>• All changes in the terms and conditions of existing share options occurring during the financial year. | | |
| 8.7.3. The following supplementary pension schemes-related information should be disclosed:<br><br>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;<br><br>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. | | |
| 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate. | | |
| 8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. | No | No such practice has been used in the Company. |
| 8.9. The following issues should be subject to approval by the shareholders' annual general meeting:<br>• Grant of share-based schemes, including share options, to directors;<br>• Determination of maximum number of shares and main conditions of share granting;<br>• The term within which options can be exercised;<br>• The conditions for any subsequent change in the exercise of the options, if permissible by law;<br>• All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award | No | |

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| compensations listed in this article to individual directors. | | |
| 8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval. | | |
| 8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting. | | |
| 8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website. | | |
| **Principle IX: The role of stakeholders in corporate governance**<br><br>**The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.** | | |
| 9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. | Yes | The corporate governance framework assures that the rights of stakeholders that are protected by law are respected. |
| 9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder | Yes | |

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| participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. | | |
| 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | Yes | |
| **Principle X: Information disclosure and transparency**<br><br>**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.** | | |
| 10.1. The company should disclose information on:<br><br>• The financial and operating results of the company;<br><br>• Company objectives;<br><br>• Persons holding by the right of ownership or in control of a block of shares in the company;<br><br>• Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;<br><br>• Material foreseeable risk factors;<br><br>• Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br><br>• Material issues regarding employees and other stakeholders;<br><br>• Governance structures and strategy.<br><br>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. | No | The Company does not keep in line with the following recommendations:<br><br>10.1 2 such is corporate communication policy of Opoczno.<br><br>10.1 – re strategy refer to 1.1.<br><br>The Company in its annual prospectus disclose only qualifications of chief executive officer and chief accountant as it is required by the rules of prospectus. Remuneration to the Management are disclosed in the notes to the financial statements. |
| 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. | | 10.2 not applicable because the Company is a subsidiary of Opoczno S.A |
| 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with | | |

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| regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. | | |
| 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure. | | |
| 10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions. | Yes | The Company provides information in English and Lithuanian, both at the same time. Upon receipt, information is announced in the stock exchange information system. The Company tries to announce essential information in non trade time – before or after trade sessions. No comments, interview or by any other means essential information is provided before it becomes public through official stock exchange information system. |
| 10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well. | Yes | The Company sends information to the Stock exchange and Securities Commission, and later with some comments to the mass media. At the same time information is placed in the official website of the Company. The Company provides information in English and Lithuanian. |
| 10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too. | No | In the official website only information related to the essential events is stored. Limitations are due to technical parameters of the website. The Company is already in process of updating the website in order to be able to place all necessary investor relation information, including the reports. Now shareholders can find our reports on the Stock exchange and Securities Commission websites. |
| **Principle XI: The selection of the company's auditor**<br><br>**The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.** | | |
| 11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | Yes | The Company stays in line with the recommendation. |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting. | No | Candidate audit company is proposed by the Management Board. The Company is constantly audited by one of the international 'big4' audit companies. |
| 11.3. It is recommended that the company should | Not | Audit company has not provided any service |

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| disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting. | applicable | except audit itself. Therefore no additional fess have been paid. |

President
Juozas Raišelis

26 January 2007

# BALANCE SHEET

| LTL‘000 | Notes | 2006 | 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Tangible assets | 4 | 52.889 | 59.173 |
| Intangible assets | 5 | 110 | 59 |
| Investments in subsidiaries and associates | 6 | 300 | 300 |
| Loans to employees | | - | 4 |
| **Total non current assets** | | **53.299** | **59.536** |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 1.349 | 587 |
| Inventories | 8 | 19.792 | 16.589 |
| Receivables and other current assets | 9 | 6.935 | 4.947 |
| **Total current assets** | | **28.076** | **22.123** |
| **TOTAL ASSETS** | | **81.375** | **81.659** |
| **LIABILITIES AND EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 10 | 19.811 | 49.527 |
| Legal reserve | 10 | 125 | 125 |
| Revaluation reserve | | 4.357 | 4.864 |
| Retained earnings | | 313 | (30.009) |
| **Total capital and reserves** | | **24.606** | **24.507** |
| **Non-current liabilities** | | | |
| Borrowings | 11 | 35.311 | 41.453 |
| Finance lease liabilities | 12 | 94 | 50 |
| Deferred tax liabilities | 24 | 1.219 | 1.153 |
| **Total non-current liabilities** | | **36.624** | **42.656** |
| **Current liabilities** | | | |
| Borrowings | 11 | 5.123 | 2.392 |
| Finance lease liabilities | 12 | 84 | 148 |
| Promissory notes | | - | 60 |
| Factoring notes | | 28 | 337 |
| Trade payables | 14 | 12.768 | 9.393 |
| Advances received | | 165 | 186 |
| Other payables and accrued expenses | 15 | 1.977 | 1.980 |
| **Total current liabilities** | | **20.145** | **14.496** |
| **Total liabilities** | | **56.769** | **57.152** |
| **TOTAL EQUITY AND LIABILITIES** | | **81.375** | **81.659** |

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

These financial statements were approved on 26 February 2007 and signed by:

| | |
|---|---|
| President | Chief Accountant |
| Juozas Raišelis | Vanda Kalpokienė |

# INCOME STATEMENT

| **LTL'000** | **Notes** | **2006** | **2005** |
|---|---|---|---|
| Sales | **17** | 56.923 | 42.442 |
| Cost of sales | **18** | (41.370) | (30.393) |
| **GROSS PROFIT** | | **15.553** | **12.049** |
| Selling expenses | **19** | (7.767) | (5.902) |
| Administrative expenses | **20** | (6.438) | (6.070) |
| Other income, net | **21** | 532 | 592 |
| Reversal of fixed assets impairment losses | **2** | - | 1.006 |
| Interest income | | 4 | 1 |
| Interest expense | **22** | (2.041) | (3.425) |
| Net foreign exchange loss | | (50) | (1.880) |
| Other finance income, net | | 5 | 75 |
| **LOSS BEFORE INCOME TAX** | | **(202)** | **(3.554)** |
| Income tax | **23** | 301 | 788 |
| **NET PROFIT (LOSS) FOR THE YEAR** | | **99** | **(2.766)** |
| **Basic and diluted earnings per share (in LTL)** | **24** | **0,01** | **(0,28)** |

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| | |
|---|---|
| President | Chief Accountant |
| Juozas Raišelis | Vanda Kalpokienė |

# STATEMENT OF CHANGES IN EQUITY

| LTL'000 | Share capital | Legal reserve | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **At 31 December 2004** | **49.527** | **125** | **1.548** | **(27.565)** | **23.635** |
| Fixed assets revaluation , less deferred tax liabilities | - | - | 3.638 | - | 3.638 |
| Depreciation of revaluation reserve | - | - | (322) | 322 | - |
| Net loss for the year | - | - | - | (2.766) | (2.766) |
| **At 31 December 2005** | **49.527** | **125** | **4.864** | **(30.009)** | **24.507** |
| Reduction of share capital (note10 ) | (29.716) | - | - | 29,716 | - |
| Depreciation of revaluation reserve less deferred tax | - | - | (507) | 507 | - |
| Net profit for the year | - | - | - | 99 | 99 |
| **At 31 December 2006** | **19.811** | **125** | **4.357** | **313** | **24.606** |

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

These financial statements were approved on 26 February 2007 and signed by:

President
Juozas Raišelis

Chief Accountant
Vanda Kalpokienė

# STATEMENT OF CASH FLOW

| LTL'000 | 2006 | 2005 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Loss before income tax** | **(202)** | **(3.554)** |
| Adjustments for: | | |
| Depreciation and amortization | 7.353 | 7.291 |
| Gain on disposal and write-off of fixed assets | (359) | (32) |
| Reversal of fixed assets impairment losses | - | (1.006) |
| Gain on investment activity | - | (66) |
| Impairment loss (reversal) recognised on trade receivables | 50 | (29) |
| Reversal of inventory to net realizable value | (74) | (249) |
| Interest, net | 2.037 | 3.415 |
| Net foreign exchange profit (loss) | 50 | 1.880 |
| Other changes | (9) | - |
| | **8.846** | **7.650** |
| Changes in operating assets and liabilities: | | |
| Increase in receivables and other current assets | (2.034) | (354) |
| Increase inventories | (3.129) | (2.631) |
| Increase in payables and other current liabilities | 3.721 | 163 |
| | **7.404** | **4.828** |
| Interest paid | (2.044) | (3.612) |
| Interest received | 4 | - |
| Income taxes paid | (45) | (358) |
| **Net cash from operating activities** | **5.319** | **858** |
| **INVESTING ACTIVITIES** | | |
| Purchases of fixed tangible and intangible assets | (1.012) | (534) |
| Proceeds on from disposal of fixed tangible assets | 404 | 248 |
| Sale of investment | - | 103 |
| Dividend received | 9 | 9 |
| **Net cash used in investing activities** | **(599)** | **(174)** |
| **FINANCING ACTIVITIES** | | |
| Proceeds from (repayments of) borrowings, net | (3.416) | 10.736 |
| Repayments of promissory notes | (60) | (10.535) |
| Repayments of finance lease | (173) | (44) |
| Factoring financing decrease | (309) | (591) |
| **Net cash used financing activities** | **(3.958)** | **(434)** |
| **Net increase in cash** | **762** | **250** |
| **CASH AT THE BEGGINING OF THE YEAR** | 587 | 337 |
| **CASH AT THE END OF THE YEAR** | **1.349** | **587** |

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

These financial statements were approved on 26 February 2007 and signed by:

| | |
|---|---|
| President<br>Juozas Raišelis | Chief Accountant<br>Vanda Kalpokienė |

# EXPLANATORY NOTES

## 1. General Information

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

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

At 31 December 2006 there were 303 employees in the Company (2005: 286).

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

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

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

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has resulted no changes to the Company's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IAS 1 (Amendment), Capital disclosures (effective for annual periods beginning on or after 1 January 2007);
- IFRS 7, Financial Instruments: Disclosure (effective for annual periods beginning on or after 1 January 2007);
- IFRS 8, Operating segments (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);

The Management of the Company anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

## 3. Significant Accounting Policies

***Statement of compliance***

The financial statements have been prepared in accordance with International Financial Reporting Standards and International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39, which has not been adopted by the EU. The Group/Bank has determined that portfolio hedge accounting under IAS 39 would not impact the consolidated financial statements had it been adopted by the EU at the balance sheet date.

***Basis of preparation***

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The principal accounting policies adopted are set out below.

***Investments in subsidiaries and associates***

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

***Tangible Fixed Assets***

Tangible fixed assets are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequenty accumulated depreciation and subsequenty accumulated impairment losses. The revaluated amount is the fair value at the date of the revaluation, which was carried out in 30 April 2005 by an by independent 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 instalments except for the month placed in service over the expected useful lives as follows:

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

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

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

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

***Intangible Assets***

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

***Impairment of Tangible and Intangible assets***

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

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

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

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

***Emission rights***

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

Member States are required to allocate allowances to installations by 28 February each year according to the NAP (a certain number of allowances are kept in reserve for new installations).

Member States must ensure that by 30 April of the following year at the latest, that the operator of each installation surrenders a number of allowances equal to the total emissions from that installation during the preceding calendar year.

Intangible asset

EU emission rights represent an intangible asset received as a non-monetary government grant free of charge and is recognised initially at fair value when issued or allocated.

Government grant

The Company has received EU emission allowances for free, which represent a non-monetary government grant, which initially is recognised in the balance sheet at fair value of the related asset at the date of issue or allocation. Subsequently the government grant is recognised as income on a systematic basis over the compliance period for which the allowances were issued.

Provision for emission rights

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision. It is measured a the best estimate of the expenditure required to settle the present obligation at the balance sheet date. This is present market price of the number of allowances required to cover emissions made up to the balance sheet date. The obligation can only be settled by surrendering allowances to the appropriate authority.

***Leasing***

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

The Company as lessor

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

The Company as lessee

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

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

***Inventories***

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

***Financial assets***

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

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

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

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

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

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

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

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

***Foreign Currencies***
Transactions denominated in foreign currency other than Litas (LTL) are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.
The applicable rates used for the principal currencies as of 31 December 2005 and 31 December 2004 were as follows:

| | 2006 | 2005 |
|---|---|---|
| USD | 2.6304 | 2.9102 |
| EUR | 3.4528 | 3.4528 |
| PLN | 0.8988 | 0.8961 |

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

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

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

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

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

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

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

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

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

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

Current and deferred tax for the period

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

***Related parties***

Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

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

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

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

## 4. Fixed tangible assets

At 31 December fixed tangible assets consisted of the following:

| LTL'000 | Buildings | Machinery and equipment | Vehicles | Other assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| ***Cost or valuation*** | | | | | | |
| At 01January 2005 | 46.336 | 70.460 | 1.648 | 1.793 | 685 | 120.922 |
| Additions | - | 94 | - | 141 | 236 | 471 |
| Revaluation | 1.766 | 2.374 | 95 | 43 | - | 4.278 |
| Transfers | - | 264 | - | (11) | (253) | - |
| Disposals and write off | - | (116) | (318) | (6) | - | (440) |
| At 31 December 2005 | 48.102 | 73.076 | 1.425 | 1.960 | 668 | 125.231 |
| Additions | - | 601 | 148 | 165 | 137 | 1.051 |
| Disposals | (15) | (15) | (31) | (10) | - | (71) |
| Write off | (8.642) | (3.948) | | (82) | | (12.672) |
| Transfers | - | (2.262) | (191) | 2.453 | - | - |
| **At 31 December 2006** | **39.445** | **67.452** | **1.351** | **4.486** | **805** | **113.539** |
| ***Accumulated depreciation and impairment*** | | | | | | |
| At 01 January 2005 | 18.399 | 38.810 | 911 | 1.310 | 685 | 60.115 |
| Charge for the year | 1.898 | 5.038 | 109 | 128 | - | 7.173 |
| Reversals of Impairment losses | (466) | (488) | - | - | (52) | (1.006) |
| Disposals and write off | - | (65) | (158) | (1) | - | (224) |
| At 31 December 2005 | 19.831 | 43.295 | 862 | 1.437 | 633 | 66.058 |
| Charge for the year | 1.919 | 5.105 | 111 | 156 | - | 7.291 |
| Disposals | (1) | (12) | (12) | (4) | - | (29) |
| Write off | (8.642) | (3.946) | - | (82) | | (12.670) |
| Transfers | - | (1.380) | (191) | 1.571 | - | - |
| **At 31 December 2006** | **13.107** | **43.062** | **770** | **3078** | **633** | **60.650** |
| ***Carrying amount*** | | | | | | |
| **At 31 December 2005** | **28.271** | **29.781** | **563** | **523** | **35** | **59.173** |
| **At 31 December 2006** | **26.338** | **24.390** | **581** | **1.408** | **172** | **52.889** |

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

Depreciation expense has been charged in cost of finished goods, in selling costs and in administrative expenses.

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

At 31 December 2006 the carrying amount of the vehicles being acquired under finance lease contracts were LTL'000 400 (At 31 December 2005 – LTL'000 309.

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

| LTL'000 | 2006 | 2005 |
|---|---|---|
| Buildings | 26.338 | 28.271 |
| Machinery and equipment | 24.390 | 28.719 |
| **Total** | **50.728** | **56.990** |

## 5. Intangible assets

At 31 December intangible fixed assets consisted of the following:

| LTL'000 | Software | Total |
|---|---|---|
| ***Cost*** | | |
| At 1 January 2005 | 390 | 390 |
| Additions | 63 | 63 |
| At 31 December 2005 | 453 | 453 |
| Additions | 114 | 114 |
| Write off | (15) | (15) |
| **At 31 December 2006** | **552** | **552** |
| ***Accumulated amortisation*** | | |
| At 1 January 2005 | 276 | 276 |
| Amortisation expense | 118 | 118 |
| At 31 December 2005 | 394 | 394 |
| Amortisation expense | 62 | 62 |
| Write off | (14) | (14) |
| **At 31 December 2006** | **442** | **442** |
| ***Carrying amount*** | | |
| **At 31 December 2005** | **59** | **59** |
| **At 31 December 2006** | **110** | **110** |

Amortization expense has been included in selling and administrative expenses.

## 6. Investments in subsidiaries and associates

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

| | 2006 | | 2005 | |
|---|---|---|---|---|
| **LTL'000** | **Carrying amount** | **Ownership, %** | **Carrying amount** | **Nuosa-vybė, %** |
| Dvarcioniu keramika SIA (Ryga, Latvija) | 14 | 100.0 | 14 | 100.0 |
| Baltijos keramika UAB | 300 | 30.6 | 300 | 30.6 |
| | **314** | | **314** | |
| Impairment losses | (14) | | (14) | |
| **Total** | **300** | | **300** | |

Subsidiary „Dvarcioniu keramika“ SIA (Ryga, Latvija) is liquidated, therefore investment is reduced to zero.

In year 2005, Company sold shares of other companies and earned net income of LTL 66 000.

The associated company Baltijos keramika UAB is carried at cost due to insignificance. Summarised financial information of Baltijos keramika UAB is set out below:

| LTL'000 | Assets | Liabilities | Equity | Income | Profit (loss) |
|---|---|---|---|---|---|
| 2006 | 1.841 | 407 | 1.435 | 1.530 | 6 |
| 2005 | 1.848 | 404 | 1.444 | 1.417 | (420) |

## 7. Cash and cash equivalents

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

| LTL'000 | 2006 | 2005 |
|---|---|---|
| Cash at bank | 1.019 | 443 |
| Cash on hand | 38 | 45 |
| Cash in transit | 292 | 99 |
| | **1.349** | **587** |
| Overdraft | - | - |
| **Total** | **1.349** | **587** |

Cash at AB Bankas Hansabankas accounts and future cash inflows of LTL'000 90.000 into AB Bankas Hansabankas accounts were pledged to secure the credit facilities granted by AB Bankas Hansabankas. At of 31 December 2006 the cash balances of the Company in the pledged accounts amounted to LTL'000 137 (Note 11).

## 8. Inventories

At 31 December inventories consisted of the following:

| LTL'000 | 2006 | 2005 |
|---|---|---|
| Raw materials and complimentary materials | 4.134 | 3.620 |
| Work in progress | 226 | 268 |
| Finished goods | 11.622 | 9.253 |
| Goods for resale | 4.215 | 3.927 |
| **Total** | **20.197** | **17.068** |
| Less: write-off to net realizable value | (405) | (479) |
| **Total** | **19.792** | **16.589** |

At 31 December 2006 and 2005 inventories, including raw and auxiliary materials, work in progress, finished goods and goods for resale in the amount of LTL'000 10,000 have been pledged to secure borrowings of the Company (note 11).

At 31 December 2006 the cost of inventories has been reduced to net realisable value by LTL'000 405 (at of 31 December 2005: LTL'000 479). The reversal of write-off of inventories to net realizable value are recognised in operating expenses.

## 9. Receivables and other current assets

At 31 December inventories consisted of the following:

| LTL'000 | 2006 | 2005 |
|---|---|---|
| Trade receivables | 7.130 | 5.127 |
| Prepayments to suppliers | 101 | 83 |
| Differed expenses | 59 | 40 |
| Other amounts receivable | 11 | 13 |
| | **7.301** | **5.263** |
| Less: allowance for doubtful debts | (366) | (316) |
| **Total:** | **6.935** | **4.947** |

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

| **LTL'000** | **2006** | **2005** |
|---|---|---|
| Allowance at the beginning of the year | 316 | 345 |
| Increase during the year | 50 | 18 |
| Reversal of allowance | - | (47) |
| **Allowance at the end of the year** | 366 | 316 |

## 10. Share capital and legal reserve

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

All shares are outstanding and fully paid. Shareholders of ordinary shares have right of one voice in the shareholders meeting and have right to get dividends, when they are announced.

In the year 2005, shareholders of the Company have changed - Opoczno S.A. (Poland) purchased major part of shares. The structure of shareholders is as follows:

| | **2006** | | | **2006** | | |
|---|---|---|---|---|---|---|
| **Shareholders** | **Number of shares** | **Nominal share value** | **%** | **Number of shares** | **Nominal share value** | **%** |
| Opoczno S.A. | 5.968.317 | 11.936.634 | 60,25 | 5.968.317 | 29.841.585 | 60,25 |
| Juozas Raišelis | 1.779.860 | 3.559.720 | 17,97 | 1.779.860 | 8.899.300 | 17,97 |
| Others | 2.157.283 | 4.314.566 | 21,78 | 2.157.283 | 10.786.415 | 21,78 |
| **Total** | **9.905.460** | **19.810.920** | **100** | **9.905.460** | **49.527.300** | **100** |

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

## 11. Borrowings

At 31 December the borrowings were repayable as follows:

| **LTL'000** | **2006** | **2005** |
|---|---|---|
| Within one year : | 5.123 | 2.392 |
| In the second year | 6.141 | 6.141 |
| In the third to fifth years inclusive | 18.424 | 18.242 |
| After five years | 10.746 | 17.070 |
| | **40.452** | **43.845** |
| Less: amount due for settlement within one year | (5.123) | (2.392) |
| **Amount due for settlement after one year** | **35.311** | **41.453** |

All borrowings are denominated in EUR.

On 7 September 2005 Bankas Hansabankas AB granted a loan to the Company in the amount of EUR'000 12,598 (LTL'000 43,500), the maturity date of which is 7 September 2013. Contracted annual interest rate is 6 months EUR Libor plus 1.3 percent margin. For the year ended 31 December 2006 the effective interest was 4.9 percent (2005: 3.3 percent).

Also, on 7 September 2005 Bankas Hansabankas AB provided the Company with credit line in the amount of EUR'000 434 (LTL'000 1,500), the maturity date of which is 7 September 2006. On 2006 the credit line was closed.

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

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

## 12. Finance lease liabilities

At 31 December future minimum finance leases were as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| **LTL‘000** | **2006** | **2005** | **2006** | **2005** |
| Within one year | 88 | 155 | 84 | 148 |
| In the second to fifth year inclusive | 99 | 57 | 94 | 50 |
| **Total** | **187** | **212** | **178** | **198** |
| Less: future finance charges | (9) | (14) | - | - |
| **Present value of lease obligations** | **178** | **198** | **178** | **198** |

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

## 13. Operating lease

The Company as lessee

| **LTL’000** | **2006** | **2005** |
|---|---|---|
| Shops lease | 62 | 58 |
| Vehicle lease | 21 | 52 |
| Land lease | 19 | 19 |
| **Present value of non-cancellable lease liabilities** | **102** | **129** |
| Within one year | 102 | 108 |
| In the second to fifth year inclusive | - | 21 |

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

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

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

## 14. Trade payables

At 31 December trade payables consisted of the following:

| **LTL‘000** | **2006** | **2005** |
|---|---|---|
| Amounts payable: | | |
| Domestic | 4.123 | 3.327 |
| Foreign | 8.645 | 6.066 |
| | **12.768** | **9.393** |
| Less: amount due for settlement within one year | (12.768) | (9.393) |
| **Amount due for settlement after one year** | **-** | **-** |

## 15. Other payables and accrued expenses

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

| **LTL'000** | **2006** | **2005** |
|---|---|---|
| Vacation reserve | 723 | 519 |
| Taxes payables | 500 | 823 |
| Salaries payable | 498 | 324 |
| Accrued expenses | 18 | 26 |
| Other payables | 238 | 288 |
| **Total** | **1.977** | **1.980** |

## 16. Financial risk management

The principal financial risk management policies of the Company are set out below:

### 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 amounts presented in the balance sheet are net of allowances for doubtful receivables (note 9).

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

### Currency exchange risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in currencies other then 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 managed by balancing payables and receivables in foreign currencies. More than 90% of transactions are made in euro and litas; therefore, exposure to other foreign currencies (USD, PLN) is not significant due to limited scope of transactions.

### Interest risk

The Company is exposed to EUR Libor increase risk on the loan granted by bankas Hansabankas AB. The exposure to interest rate risk is related to the borrowings in the amount of EUR'000 11,709. The interest rate base is 6 months EUR Libor and change on 7th March and 7th September.

## 17. Sales

***Business segments***

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

| | Wholesale | | Retail | | Total | |
|---|---|---|---|---|---|---|
| **LTL'000** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| Sales of finished goods | 23.809 | 22.528 | 8.722 | 9.426 | 32.531 | 31.954 |
| Sales of goods for resale | 14.377 | 4.725 | 7.526 | 5.086 | 21.903 | 9.811 |
| Sales of materials | 507 | 111 | 304 | 3 | 811 | 114 |
| Sales of services | 1.675 | 557 | 3 | 6 | 1.678 | 563 |
| **Total sales** | **40.368** | **27.921** | **16.555** | **14.521** | **56.923** | **42.442** |
| Segment result | 9.094 | 6.434 | 6.459 | 5.615 | 15.553 | 12.049 |
| Unallocated expenses | - | - | - | - | (14.205) | (10.966) |
| Unallocated other income, net | | | | | 532 | 592 |
| **Operating profit** | **-** | **-** | **-** | **-** | **1.880** | **1.675** |
| Interest expenses | - | - | - | - | (2.041) | (3.425) |
| Other financial expenses, net | | | | | (41) | (1.804) |
| Income tax | - | - | - | - | 301 | 788 |
| **Net profit for the year** | **-** | **-** | **-** | **-** | **99** | **(2.766)** |
| Segment assets | 21.185 | 10.812 | 4.927 | 2.272 | 26.112 | 13.084 |
| Unallocated assets | - | - | - | - | 56.019 | 68.575 |
| **Total assets** | **-** | **-** | **-** | **-** | **82.131** | **81.659** |
| Segment liabilities | - | - | - | - | - | - |
| Unallocated liabilities | - | - | - | - | 57.525 | 57.152 |
| **Total liabilities** | **-** | **-** | **-** | **-** | **57.525** | **57.152** |

***Geographical segments***

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

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

| LTL'000 | 2006 | 2005 |
|---|---|---|
| Lithuania | 30.445 | 22.711 |
| Latvia | 9.077 | 2.378 |
| Ukraine | 3.632 | 4.456 |
| Estonia | 3.497 | 421 |
| Russia | 2.977 | 3.892 |
| Poland | 2.525 | 3.554 |
| Belgium | 1.517 | 1.700 |
| Middle Asia | 1.284 | 1.711 |
| Belarus | 702 | 413 |
| Other countries | 1.267 | 1.206 |
| **Total** | **56.923** | **42.442** |

## 18. Cost of sales

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

| LTL'000 | 2006 | 2005 |
|---|---|---|
| Cost of sales of finished goods | 24.280 | 23.326 |
| Cost of sales of goods for resale | 16.749 | 7.008 |
| Cost of sales of raw materials | 333 | 59 |
| Cost of rendering service | 8 | - |
| **Total** | **41.370** | **30.393** |

## 19. Selling expenses

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

| LTL'000 | 2006 | 2005 |
|---|---|---|
| Personal expenses | 3.109 | 2.686 |
| Transportation expenses | 1.473 | 1.085 |
| Advertisement and exhibition expenses | 1.275 | 897 |
| Rent | 594 | 421 |
| Depreciation and amortisation | 312 | 345 |
| Business trip expenses | 205 | 180 |
| Representation expenses | 184 | 21 |
| Communication expenses | 127 | 157 |
| Other | 488 | 110 |
| **Total** | **7.767** | **5.902** |

## 20. Administrative expenses

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

| **LTL'000** | **2006** | **2005** |
|---|---|---|
| Personal expenses | 2.741 | 2.338 |
| Repairs and maintenance | 730 | 315 |
| Depreciation and amortisation | 548 | 441 |
| Taxes | 342 | 584 |
| Security expenses | 268 | 336 |
| Transportation expenses | 267 | 207 |
| Consultations | 216 | 380 |
| Communication expenses | 154 | 169 |
| Representation expenses | 146 | 222 |
| Bank services | 117 | 250 |
| Business trip expenses | 78 | 61 |
| Insurance | 69 | 232 |
| Impairment loss (reversal) recognised on trade receivables | 50 | (29) |
| Reversal of inventory write-off to net realizable value | (74) | (249) |
| Other | 786 | 813 |
| **Total** | **6.438** | **6.070** |

## 21. Other income, net

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

| **LTL'000** | **2006** | **2005** |
|---|---|---|
| Gain on disposal and write off of fixed assets | 359 | 71 |
| Other income, net | 173 | 521 |
| **Total** | **532** | **592** |

## 22. Interest expenses

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

| **LTL'000** | **2006** | **2005** |
|---|---|---|
| Interest on loans | 1.836 | 2.401 |
| Interest on factoring | 124 | 69 |
| Interest on guarantee | 80 | 25 |
| Interest on finance lease | 1 | 6 |
| Interest on promissory notes | - | 352 |
| Other interest expense | - | 572 |
| **Total** | **2.041** | **3.425** |

## 23. Income tax

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

| | 2006 | 2005 |
|---|---|---|
| Loss before income tax | (202) | (3.553) |
| | | |
| Tax at statutory income taxes rate of 19% (2005 - 15%) | (39) | (533) |
| Tax effect of expenses that are not deductible in determining taxable profit and of income not subject to tax | 331 | 55 |
| Effect of previously unrecognised deferred tax assets recognition | - | (504) |
| Adjustment of previously recognised deferred tax assets | 153 | - |
| Effect of tax rate change | (17) | 37 |
| Unutilized tax losses carried forward | (290) | - |
| Adjustment of income tax for 2004 | (439) | 157 |
| **Income tax benefit** | **(301)** | **(788)** |
| | | |
| Effective rate of income tax | | |
| | | |
| The components of income tax expense are as follows: | | |
| Current Income tax expenses | 72 | - |
| Adjustment of income tax for 2004 | (439) | 157 |
| Net increase (decrease) in deferred tax liability | 66 | (945) |
| **Income tax benefit** | **(301)** | **(788)** |

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

At 31 December deferred tax consisted of the following:

| **LTL'000** | **2006** | **2005** |
|---|---|---|
| **Deferred tax assets:** | | |
| Provisions and write offs | 167 | 148 |
| Vacation reserve | 120 | 99 |
| Tax loss carried forward | - | 410 |
| **Total deferred tax assets** | **287** | **657** |
| **Deferred tax liabilities:** | | |
| Fixed assets | 1.506 | 1.810 |
| **Total deferred tax liabilities:** | **(1.506)** | **(1.810)** |
| **Total deferred tax liabilities, net** | **(1.219)** | **(1.153)** |

The movement in deferred income tax account during the year consisted of the following:

| **LTL'000** | **2006** | **2005** |
|---|---|---|
| Income statement | (66) | (945) |
| Equity, revaluation reserve | - | 641 |
| **Net change during the year** | **(66)** | **(304)** |

## 24. Earnings per share

| | 2006 | 2005 |
|---|---|---|
| Net profit (loss) for the year, LTL'000 | 99 | (2.766) |
| Weighted average number of ordinary shares | 9.905.460 | 9.905.460 |
| **Total** | **0,01** | **(0,28)** |

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2006 and 2005 was 9,905,460. The Company had no dilutive options outstanding during 2006 and 2005 or at 31 December 2006 and 2005.

## 25. Related party transactions

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

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

**a) transactions between related parties**

| | Opoczno S.A | | Baltijos keramika UAB | | Dvarčia UAB | |
|---|---|---|---|---|---|---|
| **LTL'000** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| Income: | | | | | | |
| Goods sold | 2.108 | 2.818 | 417 | 337 | 262 | 234 |
| Other | 18 | 7 | 59 | 0 | - | - |
| **Total** | **2.126** | **2.825** | **476** | **337** | **262** | **234** |
| Cost of sales: | | | | | | |
| Costs of production sold | 1.993 | 3.252 | 356 | 337 | 192 | 140 |
| Costs of other income | 18 | - | - | - | - | - |
| **Total** | **2.011** | **3.252** | **356** | **337** | **192** | **140** |
| Purchases: | | | | | | |
| Goods | 10.603 | 1.671 | 976 | 945 | 398 | - |
| Materials | 87 | 227 | - | - | - | 18 |
| Non current assets | - | 26 | - | - | - | - |
| **Total** | **10.690** | **1.924** | **976** | **945** | **398** | **18** |
| Operating expenses: | | | | | | |
| received services | 100 | - | - | - | - | - |
| Financial expenses (interest) | 80 | 279 | - | - | - | - |

**b) balances between related parties**

| | Opoczno S.A | | Baltijos keramika UAB | | Dvarčia UAB | | Dvarčionių Keramika SIA | |
|---|---|---|---|---|---|---|---|---|
| **LTL'000** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| Trade and other receivables | - | (1) | 182 | 123 | 20 | 9 | - | 11 |
| Inventory | 1.882 | 2.204 | - | 159 | - | - | - | - |
| **Total** | **1.882** | **2.203** | **182** | **282** | **20** | **9** | **-** | **11** |
| Interest accrued | 18 | - | - | - | - | - | - | - |
| Trade payables | 5.274 | 3.374 | 262 | 225 | - | 7 | - | - |
| **Total** | **5.292** | **3.374** | **262** | **225** | **-** | **7** | **-** | **-** |

On 10 March, 2005 the parent company Opoczno S.A granted loan to the Company in amount of LTL'000 10.000. The loan was interest bearing of 6 month Eur Libor plus 2,175%. The loan and related interest were repaid in October 2005.

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

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

Management Board of the Company:

| Name | Period |
|---|---|
| Juozas Raišelis | 01.01-31.12 2006 |
| Audris Imbrasas | 01.01-31.12 2006 |
| Geraldas Kudrevičius | 28.02-31.12 2006 |
| Mindaugas Bučas | 26.07-31.12 2006 |
| Vigintas Bartaševičius | 04.04-31.12 2006 |
| Bartosz Marczuk | 01.01-28.04 2006 |
| Boguslaw Korneta | 01.01-30.06 2006 |
| Bartosz Augustyn | 01.01-08.03 2006 |

The compensation to the Management Board of the Company during 2006 amounted LTL'000 1.114 (2005: LTL'000 539).

Supervisory Board of the Company:

| Name | Period |
|---|---|
| Zenius Butkus | 01.01-31.12 2006 |
| Dariusz Wijata | 01.01-31.12 2006 |
| Boguslav Korneta | 01.01-31.12 2006 |
| Czesław Okincic | 01.01-31.12 2006 |
| Liudmiła Suboć | 01.01-31.12 2006 |
| Piotr Żehaluk | 01.01-31.12 2006 |
| Dariusz Gitarowski | 01.01-26.07.2006 |
| Przemysław Jaciubek | 01.01-22.11.2006 |
| Sławomir Frąckowiak | 01.01-31.12 2006 |

The compensation to the Supervisory Board of the Company during 2006 amounted LTL'000 57 (2005: LTL'000 121).

## *26.* Claims and litigations

At 31 December 2006 and 2005 the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements, apart from those, related to recovery of accounts receivable

## 27. The Company's solvency

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

## 28. Subsequent events

There have been no significant subsequent events which could have a material impact on the financial statements for the period ended 31 December 2006.

## 29. Contingent liabilities

At 31 December 2006 contingent liabilities as consisted of the following:

| **LTL'000** | |
|---|---|
| Asset insurance payments till 31 November 2013 (Compulsory according the Loan contract) | 211 |
| Lease interest till full repayment of lease | 9 |
| Bank loan interest till maturity (30 September 2013) | 7.072 |
| Interest of Guarantee, provided by Opozcno S.A | 80 |
| **Total:** | **7.372** |

Emission rights movement for the year ended 31 December 2006 consisted of the following:

| **LTL'000** | **Emission rights** | **Received Government grant** | **Provision for used emission rights** |
|---|---|---|---|
| Government grant received | 756 | 756 | - |
| Provision for used emission rights | - | (362) | 362 |
| **At 31 December 2006** | **756** | **394** | **362** |

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