DVARČIONIŲ KERAMIKA

31st March, 2008 No. 23-471
Vilnius

Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius
LITHUANIA

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, President of DVARCIONIU KERAMIKA, AB Marek Ungier and Chief Accountant Officer of DVARCIONIU KERAMIKA, AB Vanda Kalpokienė, hereby confirm that, to the best of our knowledge, the attached DVARCIONIU KERAMIKA, AB Financial Statements for the year ended 2007 prepared in accordance to International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of DVARCIONIU KERAMIKA, AB undertakings.

President Marek Ungier

Chief Accountant Vanda Kalpokienė

NIP 110628481
Keramikų st. 2, LT-10233 Vilnius
Lithuania

Phone.: +370 5 231 70 21, 231 74 11
Fax.: +370 5 231 70 61, 231 75 58

info@.keramika.lt
www.keramika.lt

DVARČIONIŲ KERAMIKA AB

Independent Auditor's Report,
Annual Report and Financial Statements
for the year ended 31 December 2007

TABLE OF CONTENTS

Information about the Company

Dvarčionių keramika AB

Telephone No.	+ 370 5 2317021
Fax No.	+ 370 5 2317061
Registration address:	Keramikų 2, Vilnius, LT-10233 Lithuania
Web page:	www.keramika.lt

Supervisory Board

Jerzy Marcin Karney	Head of Supervisory Board
Grzegorz Saniawa	Member of Supervisory Board
Miroslaw Wladyslaw Jędrzejczyk	Member of Supervisory Board

Management Board

Marek Ungier	Head of the Management Board, President
Algirdas Krupavičius	Member of the Management Board, Sales and Marketing Director
Mindaugas Bučas	Member of the Management Board, Production & Technical Director
Amadeusz Kowalski	Member of the Management Board

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 61) of Dvarčionių keramika AB, which comprise the balance sheet as of 31 December 2007, 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. 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 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that, as discussed in the Note 30, the comparative 2006 financial information was restated as a result of correction of prior year errors.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2007 (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 2007.

Deloitte Lietuva UAB
Partner Torben Pedersen

Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

Vilnius, Lithuania
31 March 2008

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 2004 - 2007:

	2004	2005 Restated	2006 Restated	2007
Sales revenue, LTL'000	41.604	42.442	56.923	69.469
Gross profit, LTL'000	15.052	12.049	15.553	17.162
Gross profit margin, %	36 %	28 %	27 %	25 %
Operating profit, LTL'000	-15.052	1.675	1.880	571
Operating profit margin, %	-36,2 %	3,9 %	3,3 %	1 %
EBITDA, LTL'000	-8.735	8.924	9.233	7.920
EBITDA margin, %	-21%	21%	16 %	11 %
Net profit (loss), LTL'000	-14.823	-2.766	-113	-1.530
Net profit margin (loss), %	-35,6 %	-6,5 %	-0,2 %	-2,2 %
Return on assets, % (ROA)	-18,6 %	-6,5 %	-0,1 %	-2 %
Return on equity, % (ROE)	-62,7%	-11,3 %	-0,5 %	-7 %
Loss per share, LTL	-1.497	-0.28	-0.01	-0.15
Total assets, LTL'000	79.873	81.659	81.491	73.974
Shareholders equity, LTL'000	23.635	24.507	24.347	22.817
Non current debt, LTL'000	28.537	42.656	36.999	32.939
Working capital, LTL'000	-9.116	7.627	7.931	8.008
Net change in cash flows, LTL'000	43	250	762	-1.038
Investments, LTL'000	213	482	1.051	1.893
Production volume, thousand m2	2.360	2.147	2.302	2.247
Number of employees (end of period)	366	286	303	285
Average salary, LTL/month	1.296	1.774	2.101	2.602

Sales revenues for 2007 increased dramatically and amounted to almost 69.469 million LTL. The growth in sales revenues was influenced by increased sales in local as well as in export markets.

The Company earned 17,2 million LTL of gross profit or 1,6 million LTL more than in a previous year. Gross profit margin in 2007 amounted to 25% (Y2006: 27%). 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 2007 amounted to 0,6 million LTL (Y2006: 1,9 million LTL). Operating profit was decreased due to increased staff costs (increase 2,4 million LTL) and transportation costs (increase 0,4 million LTL). Growth of these costs is mainly associated with increase in macro economical labour and transportation costs.

Net loss for the year 2007 amounted to 1,5 million LTL. If compared to the previous year (the loss 0,1 million LTL), the net loss increased almost by 1,4 million LTL. The major influence on the net results was compensation payments for two members of the management board and the head of administration in the end of 2007.

EBITDA in 2007 amounted to 8 million LTL and EBITDA margin to 11% and went down by 1,3 million LTL compared to the previous year (9,2 million LTL and 16%). Decrease in EBITDA margin was influenced by increased production costs (gas, labor) as well as operating costs (labor and transportation).

Working capital at the end of 2007 amounted to 8 million LTL and was very close to Y2006. Stability of this ratio indicates, that even having fast growth, the Company maintains control over liquidity.

Investments for the year 2007 amounted to 1,9 million LTL and it was more than 0,9 million LTL compared to the year 2006 (1 million LTL).

Production volume for the 2007 amounted to 2,2 million m2 and this was about of 80 % of maximum production capacity.

Number of employees in 2007 went down from 303 to 285 or by 6%. The decrease in number of employees employed is associated with optimization of operational activity. Number of employees increased in production department. An average salary increased up to 2,6 thousand LTL monthly per employee and compared to the previous year went up by 24 per cent (Y2006 – 2,1 thousand LTL). An increase in the average salary was caused by employment of new, highly qualified employees as well as salary increases for the current workers as well.

1.2. Specification of main risks which the Company encounter

<u>Economical:</u>

- 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 – the growth of competitive strength of producers in the Central Europe, as well as rapid growth of manufacturing facilities in Russia and Ukraine, the competition became stronger in the local market and abroad. However, since Opoczno S.A has acquired the control of the Company, the competitive advantage of the Company significantly improved. The Company's competitive advantage and strength should also improve, especially in the Baltic States region, after expected merger between Cersanit and Opoczno S.A.
- 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 –imports from Central and Eastern Europe and Eastern Asia is constantly growing. It is due to the activities of leading shopping centres, who are mainly focused to the price of the production provided;
- Custom procedures – for the production sold outside the EU (e.g. CIS), high custom charges are applied, and they worsen the competitiveness of production imported into these markets;
- Certifications – foreign countries as a rule require quality certificates for the production planned to be sold to these markets. Dvarčionių keramika posses all required certificates, however some of the countries lack continuity in their certification policies which create risk of temporary disruption of exports to these markets. Certification requirements as well as custom charges are means by which governments of foreign countries try to protect local producers.

<u>Technical – technological:</u>

- Prices of resources – forces constantly to look for possibilities how to eliminate negative price effect – to 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 usage of the resources;

<u>Ecological:</u>

- The Company operates in accordance with the requirements of ISO 14001 standards.
- Waste which is generated as an outcome of production process is reprocessed by own specialized equipment;
- The Company has not received any fines or sanctions for environment pollution in 2007.

<u>Social:</u>

- Negative migration – migration of young people, skilled and experience workers;
- 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

Sales of the 2007 were the highest in the history of the company and reached 69,5 million LTL. In comparison to 2006 sales has increased by 22%. The sales growth has been significant during the whole financial year.

An increase in sales revenue was caused by higher sales of production in square meters than in 2006 as well as higher sales price per unit.

Almost 2,3 million square meters of Dvarcioniu keramika, AB production were sold – 11 per cent higher than in 2006.

The main market remains Lithuania (55,7% of all sales), in which sales are conducted directly –via 13 shops retail chain, and via wholesalers.

The average price growth of one square meter was determined by a consistent growth of a mid-price segment collections' that were presented still in 2006, weight. A good few collections were presented in the reporting period.

The increase of the sold square meters was determined by the concentrated marketing efforts in the important trade markets of Lithuania ant its neighbor countries – Baltic States, Scandinavia, Belarus and the Kaliningrad Region. The company still puts effort to maintain a leading position in its strategic markets.

Sales in Lithuania

The major construction materials retailers sell the Company's products, as well as the Company sells the production under the Dvarcioniu Keramika brand in their owned shops. The retail shop network under the Company's brand comprises of 13 shops, located in the major cities. The goods offered in the own retail network are not only the produce of Dvarcioniu keramika, but also Opoczno S.A., tiles from Spain, sanitary equipment, materials for tiles pasting. Professional designer services could be obtained also.

Sales in Lithuania increased by 27 % compared to the year 2006, from 30,4 million LTL up to 38,7 million LTL. The main reasons of increase were the presentation of tiles of new Italian design.

Export sales

The main trade markets of the company still are the Baltic States, where in 2007 the sales have reached 53,3 million Litas and have increased by 10,3 million LTL (24 percent) compared to the sales in 2006 (43,0 million LTL). The sales in Latvia and Estonia have increased by 16 percent compared to the sales in 2006, and have reached the amount of 14,6 million LTL.

There are no tile manufacturers in Latvia and Estonia and therefore their markets are filled with the production from Poland (about 25 percent), China (17,7 percent) and Italy (15,5 percent) manufacturers. The production of Dvarcioniu keramika AB in this market was 16,2 percent.

The export to Belarus during 2007 has increased by 17 percent and was more than 0.8 million LTL.

The sales in Russia that were going down for a few years in a row have increased in 2007 by 9 percent up to 3,2 million LTL, and mainly due to the sales in the Kaliningrad Region.

The sales in Ukraine in 2007 have reached 3,7 million LTL.

The sales in the Central Asia have increased by 25 percent in 2007, from 1,3 million Litas to 1,6 million LTL. The increase was mainly influenced by the sales of the new mid-price segment collections in this market.

2.1.2. Supply and logistics

The basic materials, such as enamel, frits, pigments, packing materials are provided by two or more suppliers. Other specific (two different compositions are not used) materials, such as field spar and clay, that are provided by only one supplier, are stockpiled for 4-6 weeks. In order to reduce the suppliers' risk, the 12 month contracts are signed with the current suppliers and also, alternative material suppliers are selected and examined (materials' tests are performed). The company exploits its own clay quarry and this also reduces the supply risk of a specific material – clay. Clay from this quarry is used in the manufacturing of the wall tiles.

When selecting the suppliers, the company takes in account their reliability, material and service quality, material transportation costs, environmental protection requirements, financial results and recommendations. We can also mention, that the Dvarcioniu keramika AB gets their materials from the companies that are famous in the whole world of ceramics: Arco (Iris-group), Fritta S.L. , Ferro S.L. Our company has been working with these companies for more than 5 years. A long-term cooperation helps saving time when introducing new products, exchanging important information, improving manufacture and logistics processes. Long-term cooperation contracts are also signed with the gas and electricity suppliers.

2.1.3. Production

Production volume

The production volume amounted to 2,247 thousand m^2 in 2007 and in 2006 – 2,302 thousand m^2. The new collections have been introduced during the 3rd quarter of 2007, which had a negative influence on the total production volume. A relative value of the total production distributed as follows: wall tiles 61 %, gres tiles – 39 %.

Optimization of the production process

A TINTORETO program was implemented during the Ist quarter of 2007, which let reduce assortment of pigments used several times.

Innovations

An introduction of new collections continued over 2007.
4 new collections were introduced:

Wall tiles	250x400	Lacy, Colore, Vetri, Barocco	27 types
Gres tiles	333x333	Lacy, Colore, Vetri, Barocco	13 types

2.1.4. Management of quality and environment issues

Quality and Environment Safety management system

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

Quality and Environment Safety foreign auditing and results

Det Norske Veritas UAB has performed periodic ISO 9001 & 14001 quality and environment safety management review during September 2007 and found all environment management systems fully implemented.

Certified Experimental Lab

An experimental laboratory of Dvarcioniu keramika AB is certified since 1988.

A supervision review performed by National Certification Bureau in September 2007 certified the laboratory's conformity to renewed EN ISO/IEC 17025:2006 standard requirements. The laboratory received certified certification for the period of July 2009. The certification entitles Dvarčionių keramika AB laboratory to issue EC conformity certificates for the company production according to LST EN 14411 standard, based on it Dvarčionių keramika AB production has been marked using CE mark.

Dvarčionių keramika AB certified experimental laboratory has issued 48 experimental protocols and took part in 2 inter-laboratory comparative experiments together with VGTU Thermo insulation institute, Construction material laboratory in 2007.

2.1.5. Human resources

Major HR strategy changes of the company were related to the strategic investor Opoczno S.A. involvement in Company's management processes. Important company's group structure changes took place also in 2008.

Employees
At the end of 2007, there were 285 employees in the company when 303 - at the end of 2006.
Distribution of employees was as follows :

Employees' education	No. of employees
University	71
College	68
Professional schools	120
High school	26
TOTAL:	**285**

Employees' positions	No. of employees
Managers	23
Specialists	97
Workers	165
TOTAL:	**285**

More than 45% of entire company employees work over 5 years within the company.

Collective agreement
Collective agreement defines relationships between employees', employed by the company on the employment contracts, agreements between Union and the Company relating to working, payment, administration, safety, working and the off days schedules as well as other social and economical conditions.

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. 34% of company employees took part and been trained mainly on EU supported projects.

Not only external trainings are offered but also internal trainings are popular for sharing the professional knowledge within company sectors. Dvarcioniu keramika AB has received a certificate from Vilnius Chambers of Commerce, Industry and Crafts, stating that the Company complies with requirements to perform general professional training, so the Company's facilities are listed in the employees' data base for practical training.

Work and Health safety
Dvarcioniu keramika AB has taken a part in good practice competition organized by European Health and Safety agency and was awarded a good practice award in 2007.

The Company pays a great attention to the work safety. Due to lack of accidents at work places, Dvarcionių keramika AB has been assigned to the group III and lower differentiated payments to the national security fund (SODRA) since 2007.

3. Links and extra clarifications about data in financial statements
As reported in the financial statements.

4. The number of shares acquired by the company and company's own shares as well as nominal value thereof and a part of the authorised capital made up by these shares.
The Company has not acquired its own shares for the year ended 2007.

5. The number of shares acquired and transferred during the reporting period, where they are acquired or transferred during the reporting period.
No shares were acquired or transferred during 2007.

6. Information about the payment of own shared if they are acquired or transferred against payment.
No shares were acquired or transferred during 2007.

7. Reason of acquisition of own shares during the reporting period.
No shares were acquired or transferred during 2007.

8. Information about company's branches and representative offices.

The Company did not have branches or representative offices in 2007.

9. Important events, which have occurred since the end of the preceding financial year.
There were no important events since the end of the preceding financial year.

10. Company's operating plans and forecasts
The company does not announce its plans and forecasts.

11. Information about activities of the company in the field of research and development.
The company has not conducted any research and development activity.

12. Where the company uses financial instruments and where this is of importance for the evaluation of the company's assets, equity capital, liabilities, financial position and performance, the entity shall disclose financial risk management objectives, its policy for hedging major types of forecasted transactions for which hedge accounting is used, and the company's exposure to price risk, credit risk, liquidity risk and cash flow risk.
See note 16 of the financial statements.

Disclosure form concerning the compliance of Dvarčionių keramika AB with the Governance Code for the companies listed on the regulated market

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

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

2.2. A collegial management body is responsible for the strategic management of the company and 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	
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Management Board comprise of 5 members, all of them are executive directors. 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, other 6 are consultants.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The performance of the Supervisory Council is outlined in the regulations approved by the Supervisory Council. The regulations specify 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 by the Articles of the Company.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Company has Supervisory Council. The Chairman of the Supervisory Council is not the chief executive officer of the Company. The Chairman of the Management Board is 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

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 formation of the Supervisory Council enables to ensure objective and fair monitoring of the company's activities. Only a person having an adequate qualification (in the specific industry, or experience in management, law and etc.) can be elected to the member of the Supervisory Council. 6 out of 7 members of the Supervisory Council are independent (not employees of the Company).
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	The Company keeps in line with this recommendation.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	The Company keeps in line with this recommendation.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	The Company's collegial body possesses the qualifications necessary in their field of activity.

3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	New members of the Supervisory Council are provided an opportunity to get acquainted with internal documentation of the Company, business processes. This knowledge is updated periodically, because the Management Board provides the analysis of the performance to the Supervisory Council.
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 there has 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 a member of Supervisory Council.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);	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 and an ordinary business practice. 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.

4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	No	The company has not specified the determination of what constitutes independence.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company	No	The Company also has not specified the notion of 'sufficiency of independence' of the member of Supervisory Council.

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.		
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The Company has not applied practice of valuating independence of the members of the Supervisory Board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	Members of the Supervisory Board are not paid for their service, therefore this provision is not applicable to the Company.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Supervisory Board monitors and controls the activities of the Company, organizes regular meetings, on which the Management Boards accounts for the results; also provides recommendations for improvement of efficiencies.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent 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	Yes	The Company keeps in line with the recommendations. The members take active

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.		role in meetings, devote sufficient time and attention to perform his duties.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company keeps in line with the recommendations.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	Transactions between the Company and its shareholders, members of the Management Board and Supervisory Council and other natural or legal persons that exert or may exert influence on the company's management are made in approved according the procedures specified in the Articles of the Company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	The Management Board provides to the Supervisory Council all information necessary for making decisions, provides answers to the questions, and however does 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	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.

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.		
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular 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	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.

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.		
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 nomination 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: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management.		
4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		

4.13. Remuneration Committee.	No	The Company has no internal committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.
4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.		
4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents		

intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.		
4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of	No	The Company has no Audit committees for the purpose of monitoring the efficiency of the activities. However such functions are made by the Supervisory Council.

non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its		

activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	Yes	The collegial body conducts the assessment of its activities.

Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company keeps in line with the recommendation.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the 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	Yes	The Company keeps in line with the recommendation.

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.		
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Company keeps in line with the recommendation.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The company's capital consists only of the shares that grant the same rights to all shareholders of the Company.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company keeps in line with the recommendation.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are 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	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.

agenda of the general shareholders' meeting and receive answers to them.		
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Resolutions are publicly announced only using Stock exchange information system and in press. Although the resolutions are announced in the web page of the Company.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company keeps in line with recommendation.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Company keeps in line with recommendation.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company keeps in line with recommendation.

7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Not applicable	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Not applicable	There were no such cases in 2007.

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

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

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

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.	No	
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	No	
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	No	
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The corporate governance framework assures that the rights of stakeholders that are protected by law are respected.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder	Yes	

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

information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.		
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	The Company does keep in line with the following recommendations.
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 become 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.	Yes	The Company has updated its web site and announces information specified in the clause 10.7.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm	No	Candidate audit company is proposed by the Management Board. The Company is constantly audited by one of the international

of auditors to the general shareholders' meeting.		'big4' audit companies.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	Audit company has not provided any service except audit itself. Therefore no additional fees have been paid.

President
Marek Ungier

31 March 2008

BALANCE SHEET

	Notes	2007	(Restated, note 30) 2006
ASSETS			
Non-current assets			
Tangible assets	4	47.249	52.889
Intangible assets	5	88	110
Investments in subsidiaries and associates	6	411	416
Total non current assets		**47.748**	**53.415**
Current assets			
Cash and cash equivalents	7	311	1.349
Inventories	8	18.865	19.792
Receivables and other current assets	9	7.050	6.935
Total current assets		**26.226**	**28.076**
TOTAL ASSETS		**73.974**	**81.491**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	19.811	19.811
Legal reserve	10	125	125
Revaluation reserve		3.945	4.357
Retained earnings (accumulated loss)		(1.064)	54
Total capital and reserves		**22.817**	**24.347**
Non-current liabilities			
Borrowings	11	31.638	35.311
Finance lease liabilities	12	68	94
Deferred tax liabilities	23	1.233	1.594
Total non-current liabilities		**32.939**	**36.999**
Current liabilities			
Borrowings	11	3.188	5.123
Finance lease liabilities	12	26	84
Factoring notes		84	28
Trade payables	14	12.315	12.768
Advances received		313	165
Other payables and accrued expenses	15	2.292	1.977
Total current liabilities		**18.218**	**20.145**
Total liabilities		**51.157**	**57.144**
TOTAL EQUITY AND LIABILITIES		**73.974**	**81.491**

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

These financial statements were approved on 31 March 2008 and signed by:

President	Chief Accountant
Marek Ungier	Vanda Kalpokienė

INCOME STATEMENT

	Notes	2007	(Restated, note 30) 2006
Sales	**17**	69.469	56.923
Cost of sales	**18**	(52.307)	(41.370)
GROSS PROFIT		**17.162**	**15.553**
Selling expenses	**19**	(10.599)	(7.767)
Administrative expenses	**20**	(6.308)	(6.438)
Other income, net	**21**	316	532
Interest income		6	4
Finance costs	**22**	(2.316)	(2.041)
Net foreign exchange loss		(17)	(50)
Other finance income, net		(5)	7
LOSS BEFORE INCOME TAX		**(1.761)**	**(200)**
Income tax benefit	**23**	231	87
NET LOSS FOR THE YEAR		**(1.530)**	**(113)**
Basic and diluted earnings per share (in LTL)	**24**	**(0,15)**	**(0,01)**

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

These financial statements were approved on 31 March 2008 and signed by:

President Marek Ungier	Chief Accountant Vanda Kalpokienė

STATEMENT OF CHANGES IN EQUITY

	Share capital	**Legal reserve**	**Revaluation reserve**	**Retained earnings (accumulated loss)**	**Total**
At 31 December 2005	**49.527**	**125**	**4.864**	**(30.009)**	**24.507**
Restatement (note 30)	**-**	**-**	**-**	(47)	(47)
At 31 December 2005 (Restated, note 30)	**49.527**	**125**	**4.864**	**(30.056)**	**24.460**
Reduction in share capital (note10)	(29.716)	-	-	29.716	-
Depreciation of revaluated assets, net of deferred tax	-	-	(507)	507	-
Net loss for the year	-	-	-	(113)	(113)
At 31 December 2006 (Restated, note 30)	**19.811**	**125**	**4.357**	**54**	**24.347**
Depreciation of revaluated assets, net of deferred tax	-	-	(412)	412	-
Net loss for the year	-	-	-	(1.530)	(1.530)
At 31 December 2007	**19.811**	**125**	**3.945**	**(1.064)**	**22.817**

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

These financial statements were approved on 31 March 2008 and signed by:

President
Marek Ungier

Chief Accountant
Vanda Kalpokienė

STATEMENT OF CASH FLOW

	2007	(Restated, note 30) 2006
OPERATING ACTIVITIES		
Loss before income tax	**(1.530)**	**(113)**
Adjustments for:		
Income tax benefit	(231)	(87)
Depreciation and amortization	7.349	7.353
Net result of disposal and write-off of fixed assets	29	(358)
Impairment loss (reversal) recognized on trade receivables	-	50
Change in write off of inventory to net realizable value.	161	(74)
Finance cost, net	2.310	2.037
Net foreign exchange loss	17	50
Other net financial income (expense)	5	(7)
	8.110	**8.851**
Changes in operating assets and liabilities:		
Increase in receivables and other current assets	(115)	(1.830)
Decrease (increase) in inventories	775	(3.129)
(Decrease) increase in payables and other current liabilities	(174)	3.446
	8.596	**7.338**
Interest paid	(2.236)	(2.023)
Interest received	6	4
Income taxes paid	(43)	-
Net cash from operating activities	**6.323**	**5.319**
INVESTING ACTIVITIES		
Purchases of fixed tangible and intangible assets	(1.927)	(1.011)
Proceeds from disposal of tangible assets	202	407
Net cash used in investing activities	**(1.725)**	**(604)**
FINANCING ACTIVITIES		
Repayment of borrowings	(5.608)	(3.411)
Repayment of promissory notes	-	(60)
Repayment of finance lease	(84)	(173)
Increase (decrease) in factoring financing	56	(309)
Net cash used financing activities	**(5.636)**	**(3.953)**
Net (decrease) increase in cash	**(1.038)**	**762**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1.349	587
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**311**	**1.349**

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

These financial statements were approved on 31 March 2008 and signed by:

President	Chief Accountant
Marek Ungier	Vanda Kalpokienė

EXPLANATORY NOTES

1. General Information

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

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

At 31 December 2007 there were 285 employees in the Company (2006 - 303).

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 2007.

a) Standards, amendments and interpretations that are effective and relevant, and have been adopted by the Company:
- IFRS 7, Financial Instruments: Disclosures (effective 1 January 2007);
- IAS 1, Presentation of Financial Statements, consequential amendments (effective 1 January 2007);

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital (see note 16).

b) Standards, amendments and interpretations effective in 2007, but not relevant:
The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Company's accounting policies:
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective 1 January 2007);
- IFRIC 9, Reassement of Embedded Derivatives (effective 1 January 2007);
- IFRIC 10, Interim financial reporting and impairment (effective 1 January 2007);

c) Standards, amendments and interpretations that are not effective and have not been early adopted by the Company:
At the date of authorization of these financial statements, the following Interpretations were in issue but not yet effective:
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer loyalty programmes (effective 1 January 2008);
- IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2008);
- IAS 23 (Amendment) Borrowing cost (effective 1 January 2009).

The Management anticipates that the adoption of these Interpretations and Standards in future periods will have no material 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 (IFRS).

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of tangible fixed assets and financial instruments accounted at fair value.

The principal accounting policies adopted are set out below.

Investments in associates

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 associate is accounted under equity method less impairment losses recognized, where the investment's carrying amount exceeds its estimated recoverable amount in the Company's balance sheet.

Tangible Fixed Assets

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

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

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

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

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

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

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

Intangible Assets

Intangible assets are stated at historical cost, less accumulated amortization and accumulated impairment losses.

Amortisation is charged on a straight-line basis to write off the cost of each asset over the estimated useful life of 3 years.

Impairment of Tangible and Intangible assets

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

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

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

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

Emission rights

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

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

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

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

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

Leasing

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

The Company as lessor

Rental income from operating leases is recognized 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: '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.

Impairment of financial assets

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

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

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

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

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

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

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

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

	2007	**2006**
USD	2,3572	2,6304
EUR	3,4528	3,4528
PLN	0,9571	0,8988

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 recognized 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. The standard income tax rate is 15%. Since 2006 the social tax has come into effect. The basis for social tax calculation is the same as for income tax. In 2006 the social tax rate was 4%, and in 2007 the rate was 3%.

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 are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

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

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

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

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

Depreciation rates of property, plant and equipment
In making its judgment for the remaining useful life of property, plant and equipment, management considers the conclusions from the employees responsible for technical maintenance of assets.

Impairment of Property, plant and equipment
The Company makes an assessment, at least annually, whether there are any indications that property, plant and equipment have suffered any impairment. If that is the case, the Company makes an impairment test in accordance with the accounting policy set out in Note 3. The recoverable amount of cash-generating units is determined based on value-in-use calculations. As of 31 December 2007 and 2006 there were no indications that property, plant and equipment might be impaired.

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. Tangible assets

At 31 December tangible assets consisted of the following:

	Buildings	Machinery and equipment	Vehicles	Other assets	Construction in progress	Total
Revaluated amount						
At 1January 2006	48.102	73.076	1.425	1.960	668	125.231
Additions	-	601	148	165	137	1.051
Transfers	-	(2.262)	(191)	2.453	-	-
Disposals	(15)	(15)	(31)	(10)	-	(71)
Write off	(8.642)	(3.948)	-	(82)	-	(12.672)
At 31 December 2006	**39.445**	**67.452**	**1.351**	**4.486**	**805**	**113.539**
Additions	254	1.120	-	519	-	1.893
Disposals	-	(16)	(237)	(7)	-	(260)
Write off	-	(77)	-	(29)	-	(106)
Transfers	-	-	-	104	(104)	-
Transfer to current assets	-	-	-	-	(68)	(68)
At 31 December 2007	**39.699**	**68.479**	**1.114**	**5.073**	**633**	**114.998**
Accumulated depreciation and impairment						
At 1 January 2006	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**
Charge for the year	1.929	4.947	104	313	-	7.293
Disposals	-	(16)	(88)	(2)	-	(106)
Write off	-	(61)	-	(27)	-	(88)
Transfers	-	(1)	-	1	-	-
At 31 December 2007	**15.036**	**47.931**	**786**	**3.363**	**633**	**67.749**
Carrying amount						
At 31 December 2006	**26.338**	**24.390**	**581**	**1.408**	**172**	**52.889**
At 31 December 2007	**24.663**	**20.548**	**328**	**1.710**	**-**	**47.249**

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

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

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

At 31 December 2007 the carrying amount of the vehicles being acquired under finance lease contracts were LTL‘000 123 (At 31 December 2006 – LTL‘000 400).

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

	2007	**2006**
Buildings	24.663	26.338
Machinery and equipment	20.548	24.390
Total	**45.211**	**50.728**

5. Intangible assets

At 31 December intangible fixed assets consisted of the following:

	Software
Cost	
At 1 January 2006	453
Additions	114
Write off	(15)
At 31 December 2006	**552**
Additions	34
Write off	(190)
At 31 December 2007	**396**
Accumulated amortization	
At 1 January 2006	394
Amortization expense	62
Write off	(14)
At 31 December 2006	**442**
Amortization expense	56
Write off	(190)
At 31 December 2006	**308**
Carrying amount	
At 31 December 2006	**110**
At 31 December 2007	**88**

Amortization expense has been included in selling and administrative expenses.

6. Investments in subsidiaries and associates

At 31 December investments in subsidiary and associated company consisted of the following:

	2007		2006	
	Carrying amount	Ownership, %	Carrying amount	Ownership, %
Dvarcioniu Keramika SIA (Riga, Latvia)	14	100.0	14	100.0
Impairment loss	(14)		(14)	
Total	**-**		**-**	

	2007		(Restated, note 30 2006	
	Investment value	Ownership, %	Investment value	Ownership, %
Baltijos Keramika, UAB	416	30.6	414	30.6
Impairment loss	(5)		2	
Total	**411**		**416**	

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

7. Cash and cash equivalents

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

	2007	2006
Cash at bank	102	1.019
Cash on hand	15	38
Cash in transit	194	292
Total	**311**	**1.349**

Cash at AB Bankas Hansabankas accounts and future cash inflows into AB Bankas Hansabankas accounts were pledged to secure the credit facilities granted. As of 31 December 2007 the cash balances of the Company in the pledged accounts amounted to LTL'000 49 (Note 11).

8. Inventories

At 31 December inventories consisted of the following:

	2007	2006
Raw materials and complimentary materials	3.813	4.134
Work in progress	323	226
Finished goods	11.208	11.622
Goods for resale	4.087	4.215
Total	**19.431**	**20.197**
Less: write-off to net realizable value	(566)	(405)
Total	**18.865**	**19.792**

Allowance at the beginning of the year	**(405)**	**(479)**
(Increase) decrease over the year	(161)	74
Allowance at the end of the year	**(566)**	**(405)**

At 31 December 2007 and 2006 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 2007 the cost of inventories has been reduced to net realisable value by LTL'000 566 (at of 31 December 2006: LTL'000 405). The reversal of write-off of inventories to net realizable value is recognised in operating expenses.

9. Receivables and other current assets

At 31 December inventories consisted of the following:

	2007	2006
Trade receivables	6.879	7.130
Prepayments to suppliers	151	101
Prepaid expenses	31	59
Other amounts receivable	6	11
	7.067	**7.301**
Less: allowance for doubtful debts	(17)	(366)
Total:	**7.050**	**6.935**

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

	2007	2006
Allowance at the beginning of the year	**366**	**316**
Increase over the year	17	50
Write-offs over the year	(366)	-
Allowance for the end of the year	**17**	**366**

10. Share capital and legal reserve

At 31 December 2007 issued share capital of the Company consisted of 9.905.460 ordinary shares at a par value of LTL 2 each (At 31 December 2006: LTL 5 each). On 1 July 2006 the Company held extraordinary shareholders' meeting which took a decision to reduce par value of ordinary shares from 5 LTL to 2 LTL thus covering part of accumulated losses. The reduction was made in association with a procedure of restoration capital adequacy.

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

The main shareholders of the Company have changed in December, 2007. The major shareholder Polish enterprise Opoczno S.A., has acquired additional 17,97 per cent shares of the Company and holds 78,22 per cent of the total Company's capital now. The ultimate parent company of Dvarcioniu Keramika is Cersanit S.A. The structure of the shareholders is listed below:

	2007			2006		
Shareholders	**Number of shares**	**Nominal share value**	**%**	**Number of shares**	**Nominal share value**	**%**
Opoczno S.A.	7.748.177	15.496.354	78,22	5.968.317	29.841.585	60,25
Juozas Raišelis	-	-	-	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**	**100,00**	**9.905.460**	**49.527.300**	**100,00**

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

11. Borrowings

At 31 December the borrowings were repayable as follows:

	2007	**2006**
Within one year :	3.188	5.123
In the second year	8.608	6.141
In the third to fifth years inclusive	18.424	18.424
After five years	4.606	10.746
	34.826	**40.434**
Less: amount due for settlement within one year	(3.188)	(5.123)
Amount due for settlement after one year	**31.638**	**35.311**

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 5,72 per cent.

The loan is secured by buildings, machinery and equipment (Note 4), land lease right (Note 13), inventories (Note 8), cash in bank accounts (Note 7). Furthermore Opoczno S.A. has issued a guarantee in amount of 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	
	2007	**2006**	**2007**	**2006**
Within one year	30	88	26	84
In the second to fifth year inclusive	104	99	68	94
Total	**134**	**187**	**94**	**178**
Less: future finance charges	(40)	(9)	-	-
Present value of lease obligations	**94**	**178**	**94**	**178**

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

13. Operating lease

<u>The Company as lessee</u>

	2007	**2006**
Shops lease	59	62
Vehicle lease	21	21
Land lease	19	19
Present value of non-cancelable lease liabilities	**99**	**102**
Within one year	99	102
In the second to fifth year inclusive	-	-

The non-cancelable 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 Hansa bankas for the financial facility granted (Note 11).

14. Trade payables

At 31 December trade payables consisted of the following:

	2007	**2006**
Amounts payable:		
Domestic suppliers	3.937	4.123
Foreign suppliers	8.378	8.645
	12.315	**12.768**
Less: amount due for settlement within one year	(12.315)	(12.768)
Amount due for settlement after one year	**-**	**-**

15. Other payables and accrued expenses

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

	2007	2006
Vacation reserve	660	723
Taxes payables	731	500
Salaries payable	858	498
Accrued interest for the guarantee	72	18
Other payables	244	238
Total	**2.292**	**1.977**

16. Financial asset and liabilities, risk management

The Company incurs financial risks in its operations, i.e. credit risk, liquidity risk and market risk (risks of foreign currency, interest rate in relation to fair value and cash flows, as well as the securities price risk). To manage the aforesaid risks, the Company seeks to reduce the impact of factors which could negatively impact financial results of its operations.

Credit risk

As of 31 December 2007 and 2006, the credit risk was related to:

	2007	2006
Financial assets	7.179	8.124

Financial assets consist of trade receivables, other receivables, term deposits, cash and cash equivalents.

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

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

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

Bank	Long-term credit rating	Short–term credit rating
SEB Vilniaus Bankas AB	A	F1
Hansabank Group	A	F1

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

Bank	Long-term credit rating	Short–term credit rating
Hansabank Group	A1	P-1

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

Trade and other receivables due date terms by agreements:

	0-30 d. LTL'000	31-60 d. LTL'000	61-90 d. LTL'000	more than 90 d. LTL'000	Total LTL'000
31 December 2007	6.750	201	18	81	**7.050**
31 December 2006	6.323	204	-	408	**6.935**

Liquidity risk

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2007				
Borrowings	4.971	10.075	20.647	4.730
Finance lease liabilities	30	30	74	-
Trade and other payables	14.920	-	-	-
As of 31 December 2007				
Borrowings	6.979	7.721	21.357	11.236
Finance lease liabilities	88	25	74	-
Trade and other payables	14.910	-	-	-

The Company's liquidity and quick ratios as of 31 December 2007 were 1,44 and 0,4, respectively (2006 – 1,39 and 0,41).

Interest rate risk

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

The Company is exposed to EUR Libor increase risk on the loan granted by Bankas Hansabankas AB. The exposure to interest rate risk is related to the borrowings in the amount of LTL'000 34.826. The interest rate base is 3 months EUR Libor.

As of 31 December 2007 the company did not use any financial hedging instruments against interest rate risk.

Foreign exchange risk

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

Starting from 2 February 2002, Litas is pegged to EUR, therefore the Company's equity is not sensitive to changes in foreign currencies exchange rates.

The Companies has no significant concentration of foreign exchange risk; therefore, it did not use any financial instruments facilitating control over the foreign exchange risk in 2007 and in 2006.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

a) The carrying amount of current trade accounts receivable, current trade and other accounts payable and current borrowings approximates fair value.
b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

17. Sales

Business segments

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

	Wholesale		Retail		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Sales of finished goods	29.677	23.809	12.293	8.722	41.970	32.531
Sales of goods for resale	17.565	14.377	9.101	7.526	26.666	21.903
Sales of materials	376	507	-	304	376	811
Sales of services	451	1.675	7	3	458	1.678
Total sales	**48.068**	**40.368**	**21.401**	**16.555**	**69.469**	**56.923**
Segment expenses	(39.068)	(31.274)	(13.239)	(10.096)	(52.307)	(41.370)
Segment result	**9.000**	**9.094**	**8.162**	**6.459**	**17.162**	**15.553**
Unallocated expenses	-	-	-	-	(16.907)	(14.205)
Unallocated other income, net					316	532
Operating profit	**-**	**-**	**-**	**-**	**571**	**1.880**
Interest expenses	-	-	-	-	(2.313)	(2.041)
Other financial expenses, net					(19)	(39)
Income tax	-	-	-	-	231	87
Net profit for the year	**-**	**-**	**-**	**-**	**(1.530)**	**(113)**
Segment assets	22.637	21.185	3.034	4.927	25.671	26.112
Unallocated assets	-	-	-	-	48.303	55.379
Total assets	**-**	**-**	**-**	**-**	**73.974**	**81.491**
Segment liabilities	-	-	-	-	-	-
Unallocated liabilities	-	-	-	-	51.157	57.144
Total liabilities	**-**	**-**	**-**	**-**	**51.157**	**57.144**

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:

	2007	2006
Lithuania	38.693	30.445
Latvia	11.141	9.077
Ukraine	3.679	3.632
Estonia	3.436	3.497
Russia	3.235	2.977
Belgium	2.460	1.517
Poland	1.813	2.525
Middle Asia	1.602	1.284
Belarus	824	702
Other countries	2.586	1.267
Total	**69.469**	**56.923**

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

	2007	2006
Lithuania	25.378	19.802
Latvia	8.490	6.932
Ukraine	2.551	2.731
Estonia	2.762	2.681
Russia	2.227	2.041
Belgium	2.155	1.260
Poland	2.018	2.275
Middle Asia	1.551	1.076
Belarus	586	506
Other countries	4.589	2.066
Total	**52.307**	**41.370**

18. Cost of sales

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

	2007	2006
Cost of sales of finished goods	31.795	24.280
Cost of sales of goods for resale	20.334	16.749
Cost of sales of raw materials	79	333
Cost of rendering service	99	8
Total	**52.307**	**41.370**

19. Selling expenses

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

	2007	2006
Personnel expenses	4.266	3.109
Transportation expenses	1.835	1.473
Advertisement and exhibition expenses	1.821	1.275
Rent	573	594
Depreciation and amortisation	536	312
Sales expenses	268	201
Business trip expenses	206	205
Own transportation expenses	160	-
Communication expenses	121	127
Insurance	73	90
Representation expenses	66	184
Taxes expenses	61	60
Training	53	1
Agent fee expenses	35	23
Security expenses	29	16
Banking services	21	2
Other	475	95
Total	**10.599**	**7.767**

20. Administrative expenses

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

	2007	2006
Personnel expenses	3.331	2.741
Non-competition agreement	577	-
Repairs and maintenance	331	730
Depreciation and amortization	320	548
Taxes	282	342
Security expenses	278	268
Expenses (reversal) of inventory write-off to net realizable value	161	(74)
Consultations	155	216
Insurance	155	69
Bank services	125	117
Audit fee	119	61
Transportation expenses	116	267
Communication expenses	100	154
Representation expenses	77	146
Business trip expenses	46	78
Postal service, subscription	44	44
Training	24	178
Change in allowances of receivables	17	50
Other	52	503
Total	**6.308**	**6.438**

21. Other income, net

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

	2007	2006
Net result on disposal and write off of fixed assets	(29)	359
Other income, net	345	173
Total	**316**	**532**

22. Finance costs

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

	2007	2006
Interest on loans	1.999	1.836
Interest on factoring	237	124
Interest on guarantee	80	80
Total	**2.316**	**2.041**

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:

	2007	%	2006	%
Loss before income tax	(1.761)		(200)	
Tax at statutory income taxes rate of 18% (2006 - 19%)	(317)	18	(38)	19
Tax effect of expenses that are not deductible in determining taxable profit and of income not subject to tax	178	(10)	301	(151)
Effect of tax rate change	(82)	5	89	(44)
Adjustment of income tax	(10)	-	(439)	220
Income tax benefit	**(231)**	**13**	**(87)**	**44**

The components of income tax expense are as follows:

	2007	2006
Current Income tax expenses	140	72
Deferred tax expenses (benefit)	(361)	280
Adjustment of income tax for 2006	(10)	(439)
Income tax benefit	**(231)**	**(87)**

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:

	2007	2006
Deferred tax assets		
Provisions and write offs	121	167
Vacation reserve	118	120
Total deferred tax assets	**239**	**287**
Deferred tax liabilities		
Fixed assets	(1.472)	(1.881)
Total deferred tax liabilities	**(1.472)**	**(1.881)**
Total deferred tax liabilities, net	**(1.233)**	**(1.594)**

24. Earnings per share

	2007	2006
Net profit (loss) for the year	(1.530)	(200)
Weighted average number of ordinary shares	9.905.460	9.905.460
Total	**(0,15)**	**(0,01)**

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2007 and 2006 was 9,905,460. The Company had no dilutive options outstanding during 2007 and 2006 or at 31 December 2007 and 2006.

25. Related party transactions

Transactions with the related parties were as follows for the year ended December 31:

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

a) transactions between related parties

	Opoczno S.A		Baltijos keramika UAB		Dvarčia UAB	
	2007	2006	2007	2006	2007	2006
Income:						
Goods sold	472	2.108	536	417	238	262
Other	-	18	7	59	-	-
Total	**472**	**2.126**	**543**	**476**	**238**	**262**
Cost of sales:						
Costs of production sold	469	1.993	417	356	185	192
Costs of other income	-	18	2	-	-	-
Total	**469**	**2.011**	**419**	**356**	**185**	**192**
Purchases:						
Goods	12.215	10.603	873	976	291	398
Materials		87	-	-	-	-
Non current assets	-	-	-	-	-	-
Total	**12.215**	**10.690**	**873**	**976**	**291**	**398**
Operating expenses: received services	21	100	5	-	-	-
Financial expenses (interest)	80	80	-	-	-	-

b) balances between related parties

	Opoczno S.A		Baltijos keramika UAB		Dvarčia UAB	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Trade and other receivables	-	-	182	182	20	20
Inventory	1.882	1.882	-	-	-	-
Total	**1.882**	**1.882**	**182**	**182**	**20**	**20**
Interest accrued	72	18	-	-	-	-
Trade payables	4.753	5.274	80	262	2	-
Total	**4.825**	**5.292**	**80**	**262**	**2**	**-**

On 7 September, 2005 Opoczno S.A. issued the unconditional guarantee of LTL‘000 10.000 in favour of Bankas Hansabankas AB for the credit facilities provided by the bank to the Company. The guarantee carries an annual interest of 0,8%.

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

Management Board of the Company:

Name	Period
Marek Andrzej Ungier	2007.11.28-12.31
Juozas Raišelis	2007.01.01-11.28
Algirdas Krupavičius	2007.04.18-12.31
Audris Imbrasas	2007.01.01-11.28
Geraldas Kudrevičius	2007.01.01-04.30
Mindaugas Bučas	2007.01.01-12.31
Vigintas Bartaševičius	2007.01.01-01.15
Amadeuaz Kowalski	2007.11.28-12.31

The compensation to the Management Board of the Company during 2007 amounted to LTL‘000 1.476 (2006: LTL‘000 1.114).

Supervisory Board of the Company:

Name	Period
Zenius Butkus	2007.01.01-07.03
Dariusz Wijata	2007.01.01-04.18
Boguslav Korneta	2007.01.01-04.18
Czesław Okincic	2007.01.01-07.03
Liudmiła Suboć	2007.01.01-07.03
Piotr Żehaluk	2007.01.01-04.18
Robert Oskard	2007.04.18-07.03
Jerzy Karney	2007.04.18-12.31
Miroslaw Jedezejoryk	2007.04.01-12.31
Grzegorz Saniawa	2007.04.18-12.31
Slawomir Frąckowiak	2007.01.01-04.18

The compensation to the Supervisory Board of the Company during 2007 amounted to LTL‘000 30 (2006: LTL‘000 57).

26. Claims and litigations

At 31 December 2007 and 2006 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.

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 2007.

29. Contingent liabilities

Emission rights movement for the year ended 31 December 2007 consisted of the following:

	Emission rights	Received Government grant	Provision for used emission rights
Government grant received	37.383	37.383	-
Provision for used emission rights	-	(36.694)	36.694
At 31 December 2007	**37.383**	**689**	**36.694**

30. Restatement of the financial statements for the year ended 31 December 2006

Starting from 1 January 2007 the Company has changed the policy of accounting for investment in associated company Baltijos Keramika UAB. Before 1 January 2007 the investment in associate was accounted for at cost due to insignificance. International Financial Reporting Standards (IFRS) require such investments to be accounted under equity method. Starting from 1 January 2007 investment in Baltijos Keramika UAB is accounted under equity method, as the management has considered cumulative effect of application of equity method and decided that accounting of investment in Baltijos Keramika UAB under equity method contributes to the better presentation of financial position and performance of the Company. Corresponding financial information was restated to reflect the application of equity method in accounting for investment in associated company resulting in increase in investments by LTL'000 116 as of 31 December 2006, net financing revenues (expense) as of 31 December 2006 and retained earnings as of 31 December 2005 by LTL'000 2 and LTL'000 114 respectively.

In 2007 the Company has discovered a mistake in accounting for deferred tax liabilities. Therefore, as of 31 December 2006 the deferred tax liability was understated by LTL'000 375, income tax expenses as of 31 December 2006 and retained earnings as of 31 December 2005 were understated by LTL'000 214 and LTL'000 161 respectively. The mistake was corrected retroactively by restating comparative financial information.

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

	As previously reported LTL'000	Adjustments LTL'000	As restated LTL'000
Balance sheet as of 31 December 2006			
Investments into subsidiaries and associates	300	116	416
Total non-current assets	**53.299**	**116**	**53.415**
Total assets	**81.375**	**116**	**81.491**
Retained earnings	313	(259)	54
Total equity	**24.606**	**(259)**	**24.347**
Deferred tax liabilities	1,219	375	1.594
Total non-current liabilities	**36.624**	**375**	**36.999**
Total equity and liabilities	**81.375**	**116**	**81.491**
Income statement for the year ended 31 December, 2006			
Net financing revenues/(expense)	5	2	7
Net result before tax	**(202)**	**2**	**(200)**
Income tax	301	(214)	87
Net result for the period	**99**	**(212)**	**(113)**
Basic and diluted earnings per share (in LTL)	**0,01**		**(0,01)**

******