

DVARCIONIU KERAMIKA, AB

26th October, 2007 No 1-1318

Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius

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 Juozas Raišelis and Chief Financial Officer of DVARCIONIU KERAMIKA, AB Alan Levin, hereby confirm that, to the best of our knowledge, the attached not audited DVARCIONIU KERAMIKA, AB Interim Financial Statements for the nine months of 2007, prepared in accordance to International Financial Reporting Standards, represents fairly the assets, liabilities, financial position and profit and loss of DVARCIONIU KERAMIKA, AB.

Enclosed: DVARCIONIU KERAMIKA, AB Interim Financial Statements for the nine months of 2007.

President



Juozas Raišelis

Chief Financial Officer

Alan Levin



Interim Financial Statements
for the nine months of 2007

Prepared in accordance to the rules on preparation and submission of periodic and additional information of the Lithuanian Securities Commission

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The largest ceramic tiles manufacturer in the Baltic States JSC “Dvarčionių keramika” (Hereinafter the Company) exports about 46 per cent of the production to Latvia and Estonia, Scandinavia, Western Europe countries, Poland, Ukraine, Russia, central Asia countries.

The Company’s financial statements were prepared in accordance to International Financial Reporting Standards.

The interim Company’s financial statements for the period January – September, 2007 were not audited; financial statements for the year ended 31 December 2006 were audited accordingly.

BALANCE SHEET (LTL THOUSAND)

ASSETS	30 09 2007	31 12 2006
NON CURRENT ASSETS	49,436	53,299
INTANGIBLE ASSETS	98	110
TANGIBLE ASSETS	49,038	52,889
Land	-	-
Buildings	25,148	26,338
Other tangible assets	23,890	26,551
Construction in progress	-	-
NON CURRENT FINANCIAL ASSETS	300	300
LONG TERM RECEIVABLES	-	-
DEFERRED TAXES	-	-
CURRENT ASSETS	28,327	28,076
INVENTORIES	18,453	19,963
STOCK	17,867	19,792
PREPAYMENTS	586	171
NOT COMPLETED WORKS	-	-
CURRENT RECEIVABLES	9,445	6,764
INVESTMENTS AND TERM DEPOSITS	-	-
CASH	429	1,349
TOTAL ASSETS	77,763	81,375

President

Juozas Raišelis



CFO

Alan Levin



BALANCE SHEET (LTL THOUSAND) (continued)

EQUITY AND LIABILITIES	30 09 2007	31 12 2006
CAPITAL AND RESERVES	25,474	24,606
SHARE CAPITAL	19,811	19,811
Authorized	19,811	19,811
Subscribed uncalled share capital	-	-
SHARE PREMIUM	-	-
REVALUATION RESERVE	4,216	4,357
OTHER RESERVES	125	125
RETAINED EARNINGS	1,321	313
Previous years	313	-
Current year	1,009	313
GRANTS AND SUBSIDIES	-	-
DEFERRED TAX & ACCRUED LIABILITIES	977	1,219
Accrued expenses	-	-
Deferred tax liability	977	1,219
LIABILITIES	51,312	55,550
NON CURRENT LIABILITIES		
	34,747	35,311
Financial liabilities	34,747	35,311
Trade payables	-	-
Advances received	-	-
Other non current payables	-	-
CURRENT LIABILITIES	16,565	20,239
Current part of long term financial liabilities	1,653	5,123
Other financial liabilities	147	206
Trade payables	11,761	12,768
Advances received	243	165
Taxes and salaries payable	1,801	1,152
Other payables	960	825
TOTAL EQUITY AND LIABILITIES	77,763	81,375

President

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CFO

Alan Levin



PROFIT AND LOSS STATEMENT (LTL THOUSAND)

	01.01.2007- 30.09.2007	01.01.2006- 30.09.2006
SALES INCOME	52,919	42,197
COST OF SALES	-39,275	-31,151
GROSS PROFIT	13,644	11,046
Operating expenses	-11,256	-10,108
OPERATING PROFIT (LOSS)	2,388	938
OTHER ACTIVITIES	244	550
Income	245	554
Expenses	-1	-4
FINANCIAL AND INVESTING ACTIVITIES	-1,709	-1,498
Income	6	9
Expenses	-1,715	-1,507
PROFIT (LOSS) FROM ACTIVITIES	923	-10
PROFIT (LOSS) BEFORE PROFIT TAX	923	-10
Profit tax	55	(30)
NET PROFIT (LOSS)	868	20

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CFO



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CASH FLOW STATEMENT (LTL THOUSAND)

	01.01.2007- 30.09.2007	01.01.2006- 30.09.2006
Cash flows from operating activities		
Net profit	868	20
Adjustments for:		
Depreciation and amortization	5,496	5,523
(Gain)/ losses on foreign exchange	10	4
(Gain)/ losses on investment activity	-	9
(Gain)/ losses on disposals (sales) of fixed assets	-3	19
Net interest	1,703	1,464
Change in deferred taxes	-242	-30
Increase/(decrease) in inventory valuation allowance	-19	-67
Other	76	24
Operating profit before working capital changes	7,889	6,966
(Increase)/decrease in trade and other receivables excluding receivables connected with selling fixed assets	-3,096	-3,296
(Increase)/decrease in inventories	1,925	-998
Increase/(decrease) in payables excluding borrowings and loans and payables connected with purchasing fixed assets	-145	2,505
Cash generated from operations	6,573	5,177
Interest paid	-1,703	-1,464
Profit tax paid	-11	-
Interest received	6	-
Net cash from operating activities	-1,708	-1,464
Cash flows from investing activities		
Purchases of property, plant and equipment	-1,726	-1,069
Sales of property, plant and equipment	22	39
Other items	11	-
Net cash from investing activities	-1,693	-1,030
Cash flows from financing activities		
Receipt of outstanding share capital contributions	-	-
Repayment/receipt of loans	-4,034	-1,369
Financial lease payments	-77	17
(Decrease)increase in other financing payments	19	-374
Net cash from financing activities	-4,092	-1,726
Net change in cash and cash equivalents	-920	957
Cash and cash equivalents at the beginning of period	1,349	587
Cash and cash equivalents at the end of period	429	1,544

CASH FLOW STATEMENT (LTL THOUSAND) (Continued)

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STATEMENT OF CHANGES IN EQUITY (LTL THOUSAND)

	Share capital	Revaluation reserve	Reserve capital	Retained earnings	Total Equity
As at 31 December 2005	49,527	4,864	125	-30,009	24,507
Reduction of share capital	-29,716			29,716	
Result for the period				99	99
Depreciation of revaluation reserve		-507		507	0
As at 31 December 2006	19,811	4,357	125	313	24,606
Result for the period				868	868
Depreciation of revaluation reserve		-141		141	0
As at 30 September 2007	19,811	4,216	125	1,009	25,474

President

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CFO

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NOTES TO FINANCIAL STATEMENTS

JSC “Dvarčionių keramika” - the largest ceramic tiles manufacturer in the Baltic States. Company’s shares are listed on Vilnius stock exchange secondary list (ticker: DKR1L).

60.25 percent of the Company’s shares belong to the Polish company JSC OPOCZNO, the largest tiles manufacturer in Poland.

Major Financial Indicators of the Company

Financial Indicators	2007 I-III Q	2006 I-III Q	Change (percent)
Income (thousand Lt)	52,919	42,197	25.4
EBITDA (thousand Lt)	8,128	7,011	15.9
EBITDA margin (percent)	15,4	16,6	
Profit (loss) from operations (thousand Lt)	2,388	938	154.6
Operational profit margin (percent)	4.5	2.2	
Profit before taxes (thousand Lt)	923	(10)	
Net profit (loss) (thousand Lt)	868	20	
Net profit margin (percent)	1.6	0.05	
Earnings per share (in Litas)	0.09	0.00	
Debt to equity ratio	2.01	2.26	
Liquidity ratio (percent)	1.71	1.39	
Earnings to asset ratio (percent)	32.76	30.24	

Consecutive Increase of Sales

Since 2005 the Company’s income continues increasing in a steady growth. Comparing the accounting period income with the three quarters of the last year reveals that income increased by 25 per cent.

The major reason for the income increase is presentation of new collections, extensive marketing and sale policy and constant improvement of already existing ones.

The Company income distribution according to the geographical segments is as follows (Thous, Lt):

Sales	January – September 2007	January – September 2006	Change
Lithuania	29,446	22,319	32%
Latvia and Estonia	11,243	9,476	19%
Ukraine	2,507	2,655	-6%
Russia	2,509	2,254	11%
Belgium	1,906	1,129	69%
Poland	1,469	2,185	-33%
Uzbekistan	1,277	777	64%
Other countries	2,561	1,401	83%
Total sales	52,919	42,197	24%

In the course of reporting period the gross profit was also increasing and reached 13.6 million Litass (for the comparing period of the year 2006 – 11 million, Lt). The growth of the gross profitability (it reached almost 24 percent) was stipulated by the higher sales in Lithuania, Latvia and Estonia.

JSC “Dvarčionių keramika” continues holding the leading position at the Baltic States tiles market.

During the reporting period EBITDA increased more than 16 percent and reached 8.128 million Litass. Although the general and administration expenses (excluding depreciation and amortization expenses assigned to the sales, general and administrative expenses) increased, the relative general and administration expense growth as a percentage of income was lower: the gross profit increase by 23.6 per cent, while general and administrative expenses went up less rapidly and reached 11.3 per cent.

The general and administration expenses as a percentage of income for the reporting period was 21.2 per cent whereas during the three quarters of the last year it reached 24 per cent. No change in depreciation and amortization expenses occurred during the reporting periods. Higher sales and gross profit as well as efficient control of the general and administrative expenses directly affected EBITDA increase.

This reporting period of the year both the operational margin and net profit margins were positive. As during the previous reporting period, depreciation and amortization expenses reached approximately 5.5 million Litass. The result of the financial investment activity (loss) was slightly worse than the corresponding result of the previous period and reached 1.7 million Litass (1.5 million Litass in 2006). The VLIBOR interest rate has increased in Lithuania and the worsened financial investment activity results are the direct consequence of this.

The Company’s relative financial indicators have also improved. Due to the decrease of the amount of short-term obligations and achieved results the debt to equity ratio, liquidity ratio, and earnings to assets ratio became positive.

The Company's cash flows were shorter within the comparable reporting periods. Within this quarter of the year more funds were assigned to pay off the interest and bank loans. In the course of the reporting period the cash flow of the Company operational activity increased almost 27 per cent and were higher almost 1.4 million Litas than in previous year. The reason for the cash flow from operational activities is decrease in inventories on hand.

Further Increase in Activity Efficiency

With the resources prices growing, the Company constantly searches for the possibilities to improve its internal processes and internal control. In order to reduce the increasing cost, the Company seeks to use its current potentials as efficiently as possible.

Company Loans (LTL thousand)

The grantor	Currency	Balance at 30-09-2007
AB Bankas Hansa bankas	Litas	36,400