

DVARČIONIŲ KERAMIKA AB

**Independent Auditor's Report,
Annual Report and Financial Statements
for the year ended 31 December 2011**

Lithuanian Bank
Zirmunu ave. 151
LT_09128, Vilnius

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 21 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, General Manager of DVARČIONIŲ KERAMIKA AB Audris Imbrasas and Chief Accountant of DVARČIONIŲ KERAMIKA AB Rūta Zinkevičienė, hereby confirm that, to the best of our knowledge, the attached DVARČIONIŲ KERAMIKA AB audited financial statements for the year ended 31 December 2011, prepared in accordance to International Financial Reporting Standards, provide a true and fair view of the assets, liabilities, financial position and profit or loss of DVARČIONIŲ KERAMIKA AB.

Enclosed: DVARČIONIŲ KERAMIKA AB annual report and financial statements for the year ended 31 December 2011.

General Manager



Audris Imbrasas

Chief Accountant



Rūta Zinkevičienė

TABLE OF CONTENTS

	PAGE
INFORMATION ABOUT THE COMPANY	3
INDEPENDENT AUDITOR'S REPORT	4
ANNUAL REPORT	5 – 37
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	38
STATEMENT OF COMPREHENSIVE INCOME	39
STATEMENT OF CHANGES IN EQUITY	40
STATEMENT OF CASH FLOWS	41
EXPLANATORY NOTES	42 – 66

Information about the Company

Dvarčionių Keramika AB

The Company was registered on 10 of June 1994, registered as joint-stock company on 27 February 1997.

Company's code 110628481

VAT payer code LT106284811

Telephone No. + 370 5 2317021
Fax No. + 370 5 2317061
Situating in: Keramikų str. 2, Vilnius, LT-10233 Lithuania
Web page: www.keramika.lt
E-mail: info@keramika.lt

Board

Juozas Raišelis	Chairman
Audris Imbrasas	Board member, General Manager
Mindaugas Bučas	Board member, Production and Technology Director
Liudmila Suboč	Board member, Human Resources and Administration Director
Giedrius Kolesnikovas	Board member

Management

Audris Imbrasas	President
Pijus Genevičius	Sales and Marketing Director
Mindaugas Bučas	Production and Technology Director
Liudmila Suboč	Human Resources and Administration Director

Auditor

Deloitte Lietuva UAB

Banks

Swedbank, AB
AB SEB bank
AB DnB bank
AB Ūkio bank

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Dvarčionių Keramika AB:

Report on the Financial Statements

We have audited the accompanying set of financial statements (hereinafter – “financial statements”) of Dvarčionių Keramika AB (the Company), which comprise the statement of financial position as at 31 December 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 38 to 66.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Republic of Lithuania Law on Accounting and Financial Reporting and International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 give a true and fair view of the financial position of the Company as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the requirements of the Republic of Lithuania Law on Accounting and Financial Reporting and International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred a net loss of LTL'000 4,985 during the year ended 31 December 2011 and, as of that date, the Company's current liabilities exceeded its current assets by LTL'000 12,797. Management's plans concerning these matters are also described in Note 33. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect to this matter.

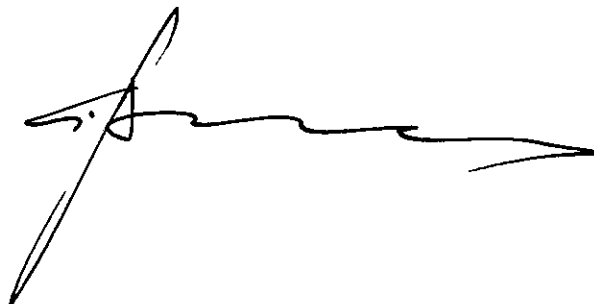
Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report for the year ended 31 December 2011, set out on pages 5 to 37 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements for the year ended 31 December 2011.

Deloitte Lietuva, UAB
License No. 001275

Sigitas Babarskas
Lithuanian Certified Auditor
License No. 000403

Vilnius, Republic of Lithuania
April 2, 2012



DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

1. The Company's financial position, performance and development review, description of major risks and uncertainties faced by the Company

1.1. The Company's financial position, performance and development review

The Company's key performance indicators for the period from 2006 to 2011:

	2006	2007	2008	2009	2010	2011
	As restated					
Sales revenue, LTL'000	56,923	69,469	72,026	44,380	25,699	25,127
Gross profit, LTL'000	15,553	17,162	17,379	9,958	4,990	4,354
Gross profit margin, %	27%	25%	24%	22%	19%	17%
Operating profit, LTL'000	1,880	571	2,592	(5,480)	(4,849)	(4,286)
Operating profit margin, %	3.3 %	0.8%	3.6%	(12.3%)	(18.9%)	(17,06%)
EBITDA, LTL'000	9,233	7,920	9,979	1,505	832	258
EBITDA margin, %	16%	11%	14%	3.4%	3.2%	1%
Net profit (loss), LTL'000	(113)	(1,525)	73	(6,042)	(5,353)	(4,985)
Net profit (loss) margin, %	(0.2%)	(2.2%)	0.1%	(13.6%)	(20.8%)	(19.84%)
Return on assets, % (ROA)	(0.1%)	(2.1%)	0.1%	(12.6%)	(9.4%)	(10,4%)
Return on equity, % (ROE)	(0.5%)	(6.7%)	0.3%	(36.1%)	(23.2%)	(31,01%)
Profit (loss) per share, LTL	(0.01)	(0.15)	0.01	(0.61)	(0.54)	(0.50)
Total assets, LTL'000	81,491	73,863	74,935	48,056	51,866	47,947
Shareholders equity, LTL'000	24,347	22,706	22,779	16,737	21,055	16,070
Long-term liabilities, LTL'000	36,999	32,939	24,332	17,468	12,885	3,788
Working capital, LTL'000	7,931	8,008	5,525	2,827	(3,212)	(12,797)
Net change in cash flows, LTL'000	762	(1,038)	(95)	(108)	(1)	14
Investments, LTL'000	1,051	1,893	2,025	160	7	67
Production volume, thousand m ²	2,302	2,247	2,849	874	1,044	1,199
Number of employees at the end of the year	303	285	297	175	165	153
Average salary, LTL/month	2,101	2,602	2,605	2,260	2,122	2,217

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Slowly recovering Lithuanian economy has not yet influenced the result of the Company. The year 2011 was the year of adaptation to the challenging economic conditions and survival for the Company. Main financial indicators of the Company were very similar to indicators of 2010. The Company's financial situation has stabilized, the Company has refused some unprofitable elements in its activities. The main reason for the sales decline was the decline in average selling prices. Although sales in square meters in 2011 compared to 2010 grew by 10 %, sales measured in terms of money decreased by 2 %. The decrease in sales prices was impacted by the desire to retain in markets and to cover bigger market share. Due to increased taxes on energy the Company was not able to reduce the production cost.

The Company earned 4.4 million LTL of gross profit during 2011; during 2010 the gross profit was 5 million LTL. Gross profit margin in 2011 was 17 %, in 2010 - 19%. Gross profit margin was affected by changes in sales structure, pricing and cost of sales. Sales prices depend on the structure of customers and product variety, competitors' actions, consumer purchasing power. Cost of sales also depends on the level of use of production capacities and changes in prices of separate cost of sales items.

During 2011 sales decreased by 2 % and amounted to 25,127 thousand LTL.

Operating loss for the year 2011 was 4.3 million LTL. The comparison of operating results for the years 2011 and 2010 shows that during 2011 the Company has reduced operating expenses and operating loss decreased by 0.6 million LTL in comparison to 2010.

The net result for the year 2011 was loss of 4.98 million LTL, while in 2010 the net loss amounted to 5.35 million LTL. The main reason for net loss - decreased sales and average selling price.

EBITDA in 2011 was 0.3 million LTL or 1% from sales.

Working capital during 2011 was negative and comprised 13 million LTL. In 2010 working capital was also negative and comprised 3 million LTL. The Company's liquidity ratio is 0.54. This ratio suggests that the Company's liquidity is manageable. Although the ratio is less than 1, but this means that the Company receives goods, materials and services from suppliers on credit, part of production and goods is sold for cash through a retail trade network, and this cash flow is used to finance long term investments and to have negative working capital.

During 2011 the Company produced 1,199 thousand square meters of stone mass and ceramic tiles i.e., 14.8 % more than in 2010. Because of decreased demand for tiles the shareholders have decided to stop Nasseti production line in January 2009 and it has not been operating since. As of 31 December 2011 the carrying value of production line Nasseti was 281 thousand LTL. The line was evaluated at the net realizable value. In 2011 tile production line Sacmi was utilized by 82 % while production capacities were utilized by 70 % in 2010.

As of 31 December 2011 the Company employed 153 employees; as of 31 December 2010 – 165 employees; as of 31 December 2009 – 175 employees. The number of employees decreased proportionally in production and in administration. The number of employees did not change significantly during 2011, change rate was 19 %. The average monthly salary for one employee amounted to LTL 2,217 and increased by 4.5 % if compared to 2010. The increase in this indicator was influenced by paid severance amounts to dismissed employees.

1.2. Description of major risks and uncertainties faced by the Company

Economical:

- During 2011 performed construction works in Lithuania amounted to 6.6 million LTL and compared to 2010 increased by 22.7 % using comparative prices. However, the volume of construction works in 2011 estimated in comparative prices made up only half of construction works performed in 2008. Increase in construction works were influenced by increase in volume of construction works of engineering (55 % of works performed in the country) in amount of 3.6 million LTL; one third of engineering works were comprised of streets and roads building and repair works. Construction works of nonresidential buildings comprised 38 % and amounted to 2.5 million LTL. Construction works were mainly related to constructions of industrial buildings, warehouses as well as educational and scientific purpose buildings. It should be noted that construction works of residential purpose buildings comprised small part and comprised 7 % of total construction works. In 2011 constructions of new buildings comprised 42 %, reconstruction works – 32 %, repair and other construction works – 26 % of total construction works performed in the country.
- Increase in volume of construction works in the country especially due to constructions of engineering buildings did not have bigger influence in increase in the market of ceramic tiles;
- Seasonality of construction sector – majority of works are done in warm period, although interior works partly are done in colder period as well;

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

- Competition – due to the growth of producers in Central and Eastern Europe, Russia and Ukraine, the competition is getting harder in foreign and domestic markets;
- Substitutes – with rapid growth of producers of construction materials and wood products, their prices are decreasing and the competition is increasing. Due to this the average selling price of production of the Company was lower in 2011 than in 2010.
- Price of resources – growth of prices for electricity, gas, materials, gasoline, makes it harder to achieve the Company's goals;
- Increase in imports – imports from Central Europe and Eastern Asia are constantly growing. Trade centers promote that they are oriented to the price of production;
- Custom procedures – for the production sold outside the EU (e.g. CIS), high custom charges are applied, they worsen the competitiveness of production imported into these markets;
- Certifications – in foreign markets there is a requirement to have quality certificates for the production planned to be sold. The Company possesses all required certificates; however some of the countries lack continuity in their certification policies which creates a risk of temporary disruption of exports to these markets. Certification requirements as well as custom charges are means by which governments of foreign countries try to protect local producers.

Technical – technological:

- Prices of resources force to constantly look for possibilities how to eliminate negative price effect – look for new suppliers, introduce new elements to composition of the product, implement innovative solutions;
- Price increase in energy resources require to look for more efficient use of the resources;
- Physical and moral condition of the main equipment is good and it does not rise any risk to Company's activities.

Supply:

- The Company maintains excellent strategic relationships with its suppliers and permanently is looking for new opportunities in raw material markets;
- The Company arranges long term contracts with its main suppliers.

Social:

- Difficult situation in business environment results in changes in Company's organizational structure, need for higher labor productivity, implementation of efficient system of raw material supply, permanent development of business and accounting processes.

Ecological:

- The Company operates in accordance with the requirements of ISO 14001 standard;
- Waste and wastewater which is generated as an outcome of production process is cleaned by the Company's treatment plants;
- The Company has not received any fines or sanctions for pollution in 2011.

2. Analysis of financial and non-financial results, information related to environment and personnel

2.1 Revenue

The Company's main business is manufacturing of ceramic and stone tiles, wholesale and retail trade. This business is risky due to changes in prices of raw materials, products in markets, energy resources and competition.

In 2011 revenue was 25.13 million LTL and compared to 2010 the sales decreased by 2 %. The sales decrease was impacted by decrease of average selling price compared to average selling prices in 2010. Decrease in selling prices was impacted by competitive environment, aim to take bigger part of market in Lithuania and in foreign markets. At the end of 2011 having more favorable competitive conditions it was decided to increase all selling price of production by 15 % from 2012. Decrease in sales was also influenced by difficult economic situation in the country. Although according to statistical information GDP in 2011 grew compared to 2010 and unemployment level was decreasing, better indicators in the country did not give expected results. Sales volume in means of quantity increased by 10 %. In 2011 1,162 square meters of tiles was sold, in 2010 – 1,061 square meters. Considering the decrease of sales revenues the Company is constantly looking for opportunities to improve its internal processes and tries to mitigate the cost growth by efficient use of available resources. It is important to note that the economic situation and increasing competition does not have an adverse impact on the Company's values and attitude. Dvarcioniu Keramika AB, as the sole representative of Lithuania in the world market of ceramic and stone tiles manufacturing, continues to provide highest quality of the latest interior design solutions.

Sales in Lithuania

Sales volume in Lithuania was 49 % from total sales. The Company's production is sold in all bigger construction material trade centers, also in own-brand shops. The Company has 10 brand retail shops situated in all biggest Lithuanian towns. The Company's shops sell not only the Company's production, but also sanitary equipment,

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

bathroom accessories, materials for tiles pasting. The services of professional designers are provided.

Export sales

Despite the global downturn in the economy in recent years, Dvarcioniu Keramika AB was able to expand export production areas - the Company's produced tiles currently are being sold in Belgium, Denmark, Sweden, Finland, Norway, Slovakia, the Czech Republic, Russia, Belarus, Ukraine.

2.2. Supply and Logistics

A few suppliers supply the Company basic raw materials, packaging materials, stationery, household and other materials. It reduces the dependence on suppliers, and enables to bargain for more favorable conditions for cooperation. For other specific materials, which are supplied by one supplier, the safe 4-week reserve of inventory is held.

Companies, selected in tender procedures, perform transportation and other services. It allows the Company to achieve the optimum price-quality ratio.

For the purpose of reducing the supply risk long term contracts are signed with main suppliers. Alternative suppliers of raw materials, basic materials and services are selected and explored. The list of main suppliers is updated four times a year, which may change due to economic and environment changes.

The suppliers are being selected based on their reliability, financial results, recommendations from the partners, materials delivery and service quality, transportation costs, environmental requirements and payment for production terms. Majority of raw materials and designs of new products to Dvarcioniu Keramika AB are supplied by well-known and recognized companies in the world of ceramics: Iris-group, Fritta S.L., Ferro S.L. Quimicer. With most of these companies, the Company has worked for approximately ten years. Long-term cooperation in introducing new advanced products, exchanging relevant information and improving the production and logistics processes allows saving time and capital recourses.

Long-term cooperation agreements are signed with gas and electricity suppliers.

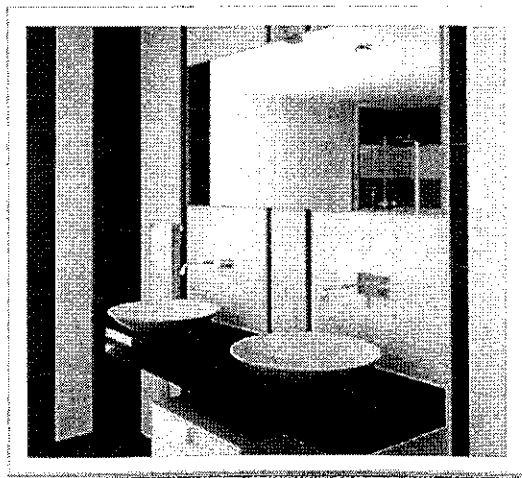
The equipment and spare parts required for production are purchased from well-known foreign manufacturers. Good and productive relationship with manufacturers enables to purchase equipment and spare parts on favorable market conditions and ensures timely delivery.

In 2009 storing system effectiveness was improved (the software was updated, the warehouse activity was automated, effective system for staff motivation was introduced). It increased the efficiency of logistics department and the flexibility of the entire Company in promptly dealing with radical changes in market conditions. Also, the effectiveness and productivity of the logistics department was improved in 2011 to meet the clients' changing needs.

2.3. Production

Production volumes

In 2011 Dvarcioniu Keramika AB produced 1,199 thousand sq. meters of tiles, in 2010 – 1,044 thousand sq. meters, whereas in 2009 – 874 sq. meters were produced. The 2011 production volume was divided as follows: wall tiles 48%, floor tiles – 52%.



Innovations

While pursuing the Company's long-term strategy and the most important goals to maintain its leading position in the Lithuanian market and expand in foreign markets by fully meeting ever-changing clients' needs, the Company is constantly expanding and renewing its product range. In order to provide customers with the highest technological and aesthetic quality tile collections that reflect the latest interior trends, Dvarcioniu Keramika AB is engaged in close cooperation with the Italian design studios for exceptional interior design solutions.

The company, following not only the latest tile fashion trends, but also by applying the most innovative manufacturing technologies and using new materials, introduced to the market new glazed ceramic tile and stone tile collections - "Nordic", "City", "Vulcan" and "Travertino".

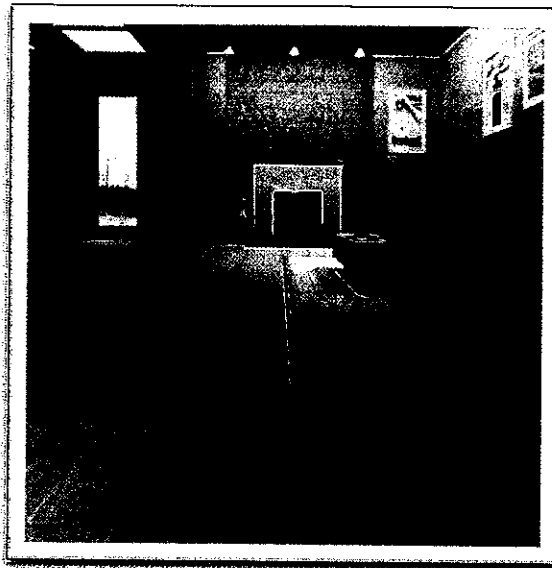
While creating collections new materials as well as special technology were applied. For the competition "The product of the year 2011" "Travertino" collection was presented – the most innovative product with exceptional technology. Collection of ceramic tiles "Travertino" won the name of Lithuanian product for the year. Since 2000, Dvacioniu Keramika AB has won 8 awards in the "Lithuanian

Product of the Year" competition.

Disengagement and tradition is the main tendency of recent years in the field of materials of interior decoration. Natural materials, natural colors are again fashionable, motives of nature dominate in patterns. Popular choice for prestigious and solid space decoration is decoration of natural stone which gives to the buildings and indoor premises solidity, elegance and subtle luxury.

Dvarčionių keramika AB offered to its customers a collection of tiles with pictures of natural marble, ecological and hygienic finishing material. "Travertino" is a natural beauty of stone; simple supervision ceramic material from stone, perfect offer for today interior. This material is appropriate for decoration of walls and floor of indoor premises, suitable for interior of residential and nonresidential spaces, keeps unchanged esthetic value while time changes. Luxurious marble tile classic design collection is complemented by the outstanding ancient times reminding stucco decorations.

"Travertino" is a collection of the most innovative technological point of view. During the product manufacturing process Multiroll device is used which allows to synchronize silicon drums. The drums make covering of different colored pictures while decorating.



"Travertino" is a collection that is created using unleaded ("green") glaze. Smooth tile surface is ensured using a new track Airpower 50, which allows covering the tiles with glaze and engobes by spraying these materials in 4 very small quantities. All these innovations in production allow spft surface effect and drawing volume in the 25x40 cm tile.

Dvarčionių keramika AB presented new "Travertino" collection for Lithuanian and foreign buyers in early 2011. This collection has been commercially successful – during I-III quarters of 2011 the company sold more than 100,000 sq.m. tiles. The product sales are growing constantly until now.

The Company has received positive feedback from trade organizations, consumers and interior designers. "Travertino" tiles – is a great product in terms of design, technology, environment, quality and price – such reviews are received from the customers.

2.4. Management of quality and environment issues, experimental laboratory

Quality and Environment Safety management system

Dvarcioniu Keramika AB activities are fully compliant with the quality and environment safety management standards ISO9001 & ISO14001 requirements. Quality management system was implemented and certified in 1999; environmental safety management system in 2002.

Quality and Environment Safety management systems external audit and results

Recertification of ISO9001 and ISO14001 quality and environmental management systems was accomplished in August 2008. New certificates were issued: No. 37667-2008-AQ-FIN-FINAS, No. 37669-2008-AE-FIN-FINAS. In September 2011 Det Norske Veritas UAB performed recertification audit of ISO9001 and ISO14000 management systems. No deficiencies were noted. Certifications confirming it are valid till 30 September 2014.

Accredited experimental laboratory

Dvarcioniu Keramika AB experimental laboratory was certified in 1999, accreditation No. LA.01.025. The accreditation provides the right to the laboratory to issue to its products EC declarations of conformity in accordance with LST EN 14411 standard.

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

The accreditation and supervision of the experimental laboratory is performed by NAB – National Accreditation Bureau. Last audit by National Accreditation Bureau was done in November 2011. National Accreditation Bureau performed an audit of supervision of experimental laboratory and extended term of accreditation according to EN ISO/IEC 17025:2005 standard. Accreditation is valid till 24 February 2014. It was confirmed that laboratory matches the requirements of EN ISO/IEC 17025:2005 standard. Next verification is scheduled in second half of 2012.

During 2011 in experimental laboratory 483 experiments for Dvarcioniu Keramika AB manufacturing needs and 66 experiments for external customers to which 11 experimental protocols were issued were performed. For works performed to external customers income in amount of 6 thousand LTL was received. The Company took part in inter-laboratory comparative experiments together with VGTU Thermo insulation institute of construction material laboratory. Results were positive.

Information about emission rights

Dvarčionių keramika AB works on the basis of IPPC edition 4.7-V-01-34 issued by Vilnius RAAD. The updated edition was confirmed on 1 March 2010 without a limited term of validity. 56,127 tons of the CO2 emissions (allowances) were given for the period 2008-2012. For this period the CO2 monitoring plan was developed and approved by Vilnius RAAD on 1 April 2008. The annual report shall be prepared and carried out in accordance with the law by an independent evaluation performed by DNV Company.

The CO2 emissions (allowances) content: 2008 - 15,045 tons, in 2009 – 4,631 tons, 2010 – 5,440 tons, 2011 - 6,204 tons, left - 24,807 tons. Because the Company was not working at full capacity, the content decreased significantly for the period 2009-2011. There were no sales or purchases of allowances. The CO2 emissions (allowances) content: in 2005 - 11,292 tons, in 2006 - 12,605 tons, in 2007- 12,795 tons.

2.5 Information on the Company's internal control system

The Company has adopted ISO 9001 and ISO 14001 standards. The Company has established and placed a plan which ensures that all business decisions are made by employees of appropriate level of competence, that all decisions are implemented, that all transactions are made in accordance with the decisions, that all valuable assets are stored in accordance with the provisions of the Company's management and that all business transactions are properly recorded. The Company has implemented such internal control system which ensures the reliability and accuracy of information and provides assurance that all industrial, commercial and financial transactions are carried out only after approval by the management. Elements of Company's internal control system are: organizational structure, segregation of duties, accounting system, physical control, control procedures, authorization and approval, personnel policies, monitoring, approval of the activities carried out, budgeting and performance monitoring. The accounting system comprises of procedures which set such an order to register, summarize and systematize transactions which removes any possibility of fraud and abuse and ascertains that financial statements are prepared on time and correctly. Control procedures are rules and regulations designed by the management to prevent from errors or fraud, to identify and correct them and to ensure that the objectives of the Company are achieved.

2.6 Human resources

Employees

As of 31 December 2011 there were 153 full-time employees in the Company, on 31 December 2010 – 165, on 31 December of 2009 – 175.

Allocation of employee job positions at Dvarcioniu Keramika AB is presented below:

Employee education	No. of Employees 31.12.2011	No. of Employees 31.12.2010	No. of Employees 31.12.2009	Allocation of job positions	No. of Employees 31.12.2011	No. of Employees 31.12.2010	No. of Employees 31.12.2009
University	42	45	48	Managers	10	10	11
Higher	32	38	34	Specialist	58	70	74
Professional schools	36	44	58	Workers	85	85	90
High school	43	38	35	TOTAL:	153	165	175
TOTAL:	153	165	175				

More than 47% of the Company employees work in the Company for more than 5 years.

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Average monthly salary of Dvarčionių keramika AB:

Group of employees	Average monthly salary per employee, LTL	Average number of employees
Manufacturing	1 921,32	69
Sales and marketing	1 854,57	48
Administration and logistics	2 897,38	43
Average per Company	2 216,98	160

Collective agreement

The collective agreement defines relationships between employees, employed in the Company based on work agreements, agreements between employees and the Company relating to work conditions, payment, administration, safety, and time off schedules as well as other social and economical conditions.

The Company's management cooperates with the professional union, provides information, and discusses the Company's business issues.

Increase in qualification

The basis for the Company's successful activities are creative and continuously developed employees, who are not afraid of responsibility and continuously search for new work implementation forms, effective problem solving solutions. Employees participate in the training project "Training of senior and middle level management of industrial leading companies to increase cooperation and competitiveness in the international context of companies with the largest economic potential" which is financed by the European Social Fund and the Confederation of Lithuanian Industrialists. Employee training and qualification is performed based on the Company's Quality management system ISO 9001 procedures. In 2010 27 % of employees took part in the trainings. Not only external trainings are encouraged but internal ones as well.

Job safety

There are suitable and safe working conditions in the Company. Health and safety committee is present. There were no serious accidents during 2011.

3. Links and extra explanations about data presented in the financial statements

All the additional information is presented in the following financial statements.

4. Number of own shares acquired or transferred, their par value and the part of share capital formed by these shares

The company did not hold, acquire or transfer any shares during the financial year.

5. Shareholders

As of 31 December 2011 number of shareholders of Dvarčionių keramika AB was 1,029 (As of 31 December 2010 – 1,038). Information about the main shareholders of the Company is disclosed in Note 12.

Rights and duties of shareholders

Shareholders have the following rights and duties:

- 1) to receive a part of the company's profit (dividends);
- 2) to receive a part of assets of the company in liquidation;
- 3) to receive shares without payment if the authorised capital is increased out of the company funds, except in cases specified in the Law on Companies;
- 4) to receive cash when the share capital of the Company is decreased in order to pay some company's cash;
- 5) to have the pre-emption right, except in cases when the General Meeting decides to withdraw the pre-emption right in acquiring the company's newly issued shares for all the shareholders;
- 6) to lend to the company in the manner prescribed by law; however, when borrowing from its shareholders, the company may not pledge its assets to the shareholders. When the company borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the lender has his place of residence or business, which was in effect on the day of conclusion of the loan agreement. In such a case, the company and shareholders shall be prohibited from negotiating a higher interest rate;
- 7) other property rights and duties noted in Law on Companies and other legal acts of the Republic of Lithuania;
- 8) to participate in the General Meetings;
- 9) to submit to the Company in advance the questions connected with the issues on the agenda of the General Meeting of Shareholders;
- 10) to vote at General Meetings of Shareholders according to voting rights carried by their shares;
- 11) to receive information on the business activities of the company;

12) to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the manager of the company and Board members of their duties prescribed by this Law and other laws and the Articles of Association of the company as well as in other cases laid down by laws.

6. Own shares acquired or transferred during the financial year, their par value and the part of share capital formed by these shares

The company did not hold, acquire or transfer any shares during the financial year.

7. Information about the payments for owned shares if they were acquired or transferred for a fee

The company did not hold, acquire or transfer any shares during the financial year.

8. Reason of acquisition of own shares during the financial year

None.

9. Powers of the General Meeting of Shareholders

The General Meeting of Shareholders shall have the exclusive right to:

- 1) amend the Articles of Association of the company, unless otherwise provided for by Law on Companies;
- 2) remove the Supervisory Board or its members, also the Board or its members elected by the General Meeting of Shareholders and the manager of the company;
- 3) elect and remove the firm of auditors for the carrying out of the audit of annual financial statements, set the conditions for auditor remuneration;
- 4) determine the class, number, nominal value and the minimum issue price of the shares issued by the company;
- 5) take a decision regarding conversion of the company's shares of one class into shares of another class, approve the share conversion procedure;
- 6) approve company's set of annual financial statements;
- 7) take a decision on profit/loss appropriation;
- 8) take a decision on the formation, use, reduction and liquidation of reserves;
- 9) take a decision on the issue of convertible debentures;
- 10) take a decision on withdrawal for all the shareholders the right of pre-emption in acquiring the company's shares or convertible debentures of a specific issue;
- 11) take a decision on increase of the authorised capital;
- 12) take a decision on reduction of the authorised capital, except where otherwise provided for by Law on Companies;
- 13) take a decision for the company to purchase own shares;
- 14) take a decision on the reorganisation or split-off of the company and approve the terms of reorganisation or split-off;
- 15) take a decision on transformation of the company;
- 16) take a decision on restructuring of the company;
- 17) take a decision on liquidation of the company, cancellation of the liquidation of the company, except where otherwise provided for by Law on Companies;
- 18) elect and remove from office the liquidator of the company, except where otherwise provided for by this Law.

The General Meeting of Shareholders may also decide on other matters assigned within the scope of its powers by the Articles of Association of the company, unless these have been assigned under this Law within the scope of powers of other organs of the company and provided that, in their essence, these are not the functions of the management organs.

The General Meeting of Shareholders shall take the following decisions by a qualified majority vote that must be not less than 2/3 of all the votes carried by the shares held by the shareholders attending the Meeting:

- 1) amending of the Articles of Association of the company, except where otherwise stipulated by Law on Companies;
- 2) determination of the class, number, nominal value and the minimum issue price of the shares issued by the company;
- 3) conversion of the company's shares of one class into shares of another class, approval of the share conversion procedure;
- 4) replacement of a private limited liability company's share certificates with shares;
- 5) building up, drawing on, reduction or liquidation of reserves;
- 6) issuance of convertible debentures;
- 7) increase of the authorised capital;
- 8) reduction of the authorised capital, except where otherwise stipulated by the Law on Companies;
- 9) reorganisation or split-off of the company or approval of the terms of reorganisation or split-off of the company;
- 10) reorganisation or split-off of the company or approval of the terms of reorganisation or split-off of the company;
- 11) restructuring of the company;
- 12) liquidation of the company and cancellation of the company's liquidation, except where otherwise stipulated by this Law.

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

The decision to withdraw for all shareholders the pre-emption right in acquiring the company's newly issued shares or convertible debentures of a specific issue shall require a qualified majority vote that must be not less than 3/4 of all the votes carried by the shares of the shareholders present at the General Meeting of Shareholders and entitled to vote when deciding on the issue

10. Regulation of change of Company's Articles of Association

Changes of Company's Articles of Association are changed according to legal requirements.

11. Information on Company's managing bodies

The Company has its General Meeting of Shareholders, collegiate managing body Managing Board and managing body – Company's General Director. Managing Board is elected by the General Meeting of Shareholders for four years period. Managing Board is comprised from 6 members. Quantitative operating system is established within the Company. This means that the Company in various transactions is represented by the General Director and one of the Board members. Company's General Director is elected and resigned by Company's Managing Board. Salary and job regulations of General Director are also approved by the Managing Board.

Information on Managing Board members of Dvarčionių keramika AB:

Name, Surname, position	Term of office (from - to)	Number of Company's shares held	Participation in other companies' operations	Participation in other companies' share capital
Mr. Juozas Raišelis, Chairman of the Board	From 9 February 2010 to 13 July 2013	-	President of Raico group UAB	35.4 % voting rights of Raico group UAB
Mr. Audris Imbrasas, Board member	From 13 July 2009 to 13 July 2013	-	-	-
Mr. Giedrius Kolesnikovas	From 13 July 2009 to 13 July 2013	-	-	-
Mrs. Liudmila Suboč	From 13 July 2009 to 13 July 2013	10 shares	-	7.65 % of voting rights of Baltijos keramika UAB
Mr. Mindaugas Bučas	From 13 July 2009 to 13 July 2013	-	-	50 % of voting rights of Dvarų keramika UAB

Mr. Audris Imbrasas – Board member, General Director of the Company. He has a higher education, works within the Company starting from 13 July 2009. He does not hold any shares of the Company.

Mrs. Rūta Zinkevičienė – chief accountant. She has a higher education, works within the Company from 2 November 2010. She does not hold any shares of the Company.

During 2011 the Company accounted for LTL 381,233 of remuneration expenses to the Company's management.

During 2011 the Company and its employees did not arrange any significant arrangements.

Information on material related party transactions is disclosed in Note 29 of the Explanatory notes.

12. Information on Company's branches and affiliates

The Company does not hold any branches of affiliates

13. Information on Company's share capital structure (amount of shares, nominal value, share classes)

Registered authorized capital in the Centre of Registers amounted to LTL 19,810,920. Company's share capital consisted of 9,905,460 ordinary shares, with the par value LTL 2 each. All shares were fully paid.

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

14. Important events of the year

On 29 April 2011 the General Meeting of Shareholders took place. The meeting heard a presentation on Company's Annual Report for the year 2010, findings of the auditors regarding Company's activities during 2010, Company's financial statements of the year 2010 were introduced for approval, profit (loss) distribution project for the year 2010 was presented. The participants of the meeting agreed and approved all agenda items.

On 15 July 2011 Dvarčionių keramika AB added information to the Annual Report for the year 2010, announced on 29 April 2011.

On 3 August 2011 the Company announced not audited interim financial statements for the six month of the year 2011 and the result for the first six month of the year 2011.

On 28 October 2011 the Board decision was made to optimize performance and to close the Company's shop in Mažeikiai.

On 18 November 2011 Deloitte Lietuva, UAB was selected as Audit Company for the audit of financial reporting of the Company for the year 2011. Ceiling price of LTL 30,000 (EUR 8,688.60) without value-added tax was approved for the audit of financial reporting of the Company for the year 2011.

All information is presented on the Company's website <http://www.keramika.lt/announcements>

15. The Company's plans and forecasts

The Company does not publicly announce its plans and forecasts.

16. Information about the research and development activities.

The Company did not conduct any research and development activities.

17. When the Company uses financial derivatives and when it is important for valuation of the Company's assets, shareholders equity, liabilities, financial status and results, the Company discloses the goals of financial risk management, used hedging instruments which are accounted as such for main groups of planned transactions as well as extent of pricing risk, liquidity risk and cash flow risk.

The Company did not use any derivative financial instruments, which are important in assessing the Company's assets, equity, liabilities, financial position and results.

18. Transactions of Dvarčionių keramika AB equity securities in regulated financial markets

On 5 September 2006 the Company signed an agreement on Company's equity securities accounting with Finasta FMJ AB (Maironio str. 11, Vilnius).

Company's ordinary shares are listed on NASDAQ OMX Baltic Secondary list. Trading statistics is provided below:

Reporting period	Price, LTL		
	Highest	Lowest	Last Session
I quarter of 2011	0.210	0.071	0.110
II quarter of 2011	0.210	0.110	0.110
III quarter of 2011	0.250	0.110	0.120
IV quarter of 2011	0.121	0.120	0.120

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Ratio	I quarter		II quarter		III quarter		IV quarter	
	2011	2010	2011	2010	2011	2010	2011	2010
Open price	0.150	0.414	0.110	0.414	0.110	0.414	0.120	0.414
Highest price	0.210	0.579	0.210	0.579	0.250	0.579	0.121	0.579
Lowest price	0.071	0.050	0.110	0.050	0.110	0.050	0.120	0.050
Last price	0.110	0.150	0.110	0.150	0.120	0.150	0.120	0.150
Turnover, units	435	10 065	801	10 065	4 327	10 065	969	10 065
Turnover, mLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capitalisation, mLTL	1.19	1.49	1.19	1.49	1.19	1.49	1.19	1.49

Ratio	2011	2010
Open price	0.150	0.414
Highest price	0.071	0.579
Lowest price	0.414	0.050
Last price	0.120	0.150
Turnover, units	6,532	10,065
Turnover, mLTL	0.00	0.00
Capitalisation, mLTL	1.19	1.49

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

DVARČIONIŲ KERAMIKA AB disclosure form regarding the Compliance with the Governance Code for the Companies Listed on AB NASDAQ OMX Vilnius Regulated Market

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
<p>Principle I: Basic Provisions</p> <p>The overriding objective of the company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</p>		
<p>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.</p>	<p>No</p>	<p>The Company has prepared development strategy, which is not announced publicly.</p>
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>Yes</p>	<p>The Company seeks to ensure rights of all major stakeholders.</p>
<p>Principle II: The corporate governance framework</p> <p>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.</p>		
<p>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.</p>	<p>Yes</p>	<p>The governing bodies of the Company are: general meeting of shareholders, Board of directors and chief executive officer.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company's collegial management body is Board of directors.</p>
<p>2.3. Where a company chooses to form only one collegial body, it is recommended that it should be</p>	<p>Not applicable</p>	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>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.</p>		
<p>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.</p>	<p>No</p>	
<p>2.5. A 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.</p>	<p>Yes</p>	<p>The Board of directors consists of 5 members.</p>
<p>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.</p>	<p>No</p>	
<p>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 depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>No</p>	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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.

<p>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.</p>	<p>No</p>	
<p>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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company's collegial body members are qualified specialists.</p>
<p>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</p>	<p>No</p>	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

skills and knowledge.		
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	
<p>3.7. A member of the collegial body should be considered to be independent only if he/she 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 dependent 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:</p> <ol style="list-style-type: none"> 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); 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 	No	<p>The Company's financial statements disclose the related parties' transactions as required by the International financial reporting standards. Transactions between the related parties are performed using arm's length principle. No other means to evaluate the independence of members of governing bodies are applied because no means are specified in internal documents of the Company (statute, regulations).</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>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;</p> <p>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;</p> <p>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;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>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.</p>		
<p>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.</p>	<p>No</p>	<p>The Company has not specified the conception of independence.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	<p>No</p>	
<p>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.</p>	<p>No</p>	
<p>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.</p>	<p>Not applicable</p>	
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>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.</p>		
<p>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.</p>	<p>Yes</p>	
<p>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</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>		
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>The Company complies with the recommendation. The members of collegial bodies perform its functions: actively participate in collegial body meetings and devote enough of their time for such meetings.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>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.</p>	<p>Yes</p>	<p>Transactions between the Company and its shareholders, members of the Management Board and Supervisory Council and other natural or legal persons who has influence or may have influence on the Company's management are approved according to the procedures specified in the statute of the Company.</p>
<p>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.</p>	<p>Yes</p>	
<p>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</p>	<p>Yes</p>	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>		
<p>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.</p>	No	
<p>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.</p>	No	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>No</p>	
<p>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.</p>	<p>No</p>	
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) 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 of 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; 2) 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; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management.</p> <p>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.</p>	<p>No</p>	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) 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; 2) 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; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) 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); 5) 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. <p>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:</p> <ol style="list-style-type: none"> 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) 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. <p>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</p>	<p>No</p>	
---	-----------	--

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>on the remuneration of other executive directors or members of the management bodies.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <p>1) 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);</p> <p>2) 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;</p> <p>3) 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;</p> <p>4) 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;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be</p>	<p>No</p>	<p>The Company has no internal audit committee.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>furnished with complete information on particulars of accounting, financial and other operations of the company. The Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>		
<p>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</p>	<p>Yes</p>	<p>The collegial body conducts the assessment of its activities and reviews its objectives.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>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.</p>		
<p>Principle V: The working procedure of the company's collegial bodies</p> <p>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.</p>		
<p>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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>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-ordinating 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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>Principle VI: The equitable treatment of shareholders and shareholder rights</p> <p>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.</p>		
<p>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.</p>	<p>Yes</p>	<p>The Company's capital consists only of the ordinary shares that give the same voting, ownership, dividend and other rights to all of their holders.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>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.</p>	<p>Yes</p>	<p>Transactions are made on the basis prescribed in the Company's statute.</p>
<p>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</p>	<p>Yes</p>	<p>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.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.</p>		
<p>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.</p>	<p>Yes</p>	<p>Public announcements are made using Stock exchange information system and in press. Also, the announcements are placed in the web page of the Company.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company complies with recommendation.</p>
<p>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.</p>	<p>No</p>	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>Principle VII: The avoidance of conflicts of interest and their disclosure</p> <p>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.</p>		
<p>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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company complies with the recommendation.</p>
<p>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 verbally, 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.</p>	<p>Not applicable</p>	
<p>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.</p>	<p>Not applicable</p>	<p>There were no such cases in 2011.</p>
<p>Principle VIII: Company's remuneration policy</p> <p>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.</p>		
<p>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.</p>	<p>No</p>	<p>No such practice has been established in the Company.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>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.</p>	<p>No</p>	<p>No such practice has been established in the Company.</p>
<p>8.3. Remuneration statement should include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.</p>	<p>No</p>	<p>No such practice has been established in the Company.</p>
<p>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.</p>	<p>No</p>	<p>No such practice has been established in the Company.</p>
<p>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.</p>	<p>No</p>	<p>No such practice has been established in the Company.</p>
<p>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.</p>	<p>No</p>	<p>No such practice has been established in the Company.</p>
<p>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</p>	<p>No</p>	<p>The Company discloses payments to the Board members in the explanatory notes of the financial statements.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

year.

8.7.1. The following remuneration and/or emoluments-related information should be disclosed:

- 1) 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;
- 2) The remuneration and advantages received from any undertaking belonging to the same group;
- 3) 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;
- 4) 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;
- 5) 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;
- 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.

8.7.2. Regarding shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:

- 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;
- 2) 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;
- 3) 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;
- 4) 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:

- 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;
- 2) 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

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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 established in the Company.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) 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 compensations listed in this article to individual directors.	No	
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	No	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

<p>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.</p>		
<p>Principle IX: The role of stakeholders in corporate governance</p>		
<p>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.</p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>The Company's management system assures that the rights of stakeholders are protected according to laws.</p>
<p>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 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.</p>	<p>Yes</p>	
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>Yes</p>	

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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.

<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> 1) The financial and operating results of the company; 2) The Company's objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and related parties, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. <p>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.</p> <p>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.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>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.</p>	<p>Yes</p>	<p>The Company complies with recommendation.</p>
<p>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 AB NASDAQ OMX Vilnius, so that all the company's shareholders and investors should</p>	<p>Yes</p>	<p>The Company provides information in English and Lithuanian in AB NASDAQ OMX Vilnius information system at the same time. Information is announced in the stock exchange trading system and web page. Such process ensures that all the information users gets information at the same time. The Company also tries to announce essential information in non-trade time – before or after trade sessions.</p>

DVARČIONIŲ KERAMIKA AB
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

have equal access to the information and make informed investing decisions.		No comments, interview or other essential information is provided before it becomes public through official stock exchange information system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company sends information to the Stock exchange and Securities Commission, and later with some comments to the mass media. At the same time information is placed in the official website of the Company. Such process ensures that all the information users gets information at the same time. 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 recommendation 10.7.
<p>Principle XI: The selection of the company's auditor</p> <p>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p>		
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 of auditors to the general shareholders' meeting.	No	Candidate audit company is proposed by the Board of directors.
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.

During the period from 1 January 2009 to 8 July 2009 supervision of the activities of the Company was carried out by the supervisory board of the Company. On 8 July 2009 members of the supervisory board of the Company resigned, therefore from 8 July 2009 to 1 January 2010 functions of the supervisory board were not actually executed. By the decision of the shareholders of the Company on 9 February 2010 the supervisory board as a body carrying out the supervision of the activities of the Company has been canceled.

General Manager
Audris Imbrasas



2 April 2012

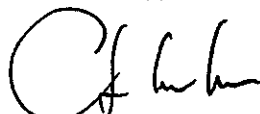
DVARČIONIŲ KERAMIKA AB
COMPANY'S SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

	Notes	2011	2010
ASSETS			
Property, plant and equipment	5	32,321	36,807
Intangible assets	6	2	3
Investment property	7	32	42
Investments in associates	8	300	300
Total non-current assets		32,655	37,152
Inventories	9	11,524	10,049
Prepaid income tax		-	104
Trade and other receivables	10	3,647	4,454
Cash and cash equivalents	11	121	107
Total current assets		15,292	14,714
TOTAL ASSETS		47,947	51,866
EQUITY			
Share capital	12	19,811	19,811
Legal reserve	12	125	125
Revaluation reserve	5	10,855	12,043
Accumulated losses		(14,721)	(10,924)
Total equity		16,070	21,055
LIABILITIES			
Loans	14	-	10,747
Finance lease liabilities	15	59	160
Deferred tax liabilities	28	2,080	1,978
Long term prepayments	29	1,649	-
Total non-current liabilities		3,788	12,885
Loans	14	18,815	8,053
Finance lease liabilities	15	114	109
Trade payables	17	6,661	7,374
Prepayments		271	657
Other payables and accrued expenses	18	2,228	1,733
Total current liabilities		28,089	17,926
Total liabilities		31,877	30,811
TOTAL EQUITY AND LIABILITIES		47,947	51,866

The accompanying notes on pages from 42 to 66 are an integral part of these financial statements.

These financial statements were approved and signed on 2 April 2012:



General Manager
Audris Imbrasas



Chief Accountant
Rūta Zinkevičienė

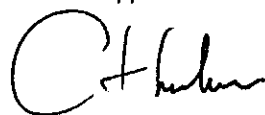
DVARČIONIŲ KERAMIKA AB
COMPANY'S SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

	Notes	2011	2010
Income	19, 20	25,127	25,699
Cost of sales	20, 21	(20,773)	(20,709)
Gross profit		4,354	4,990
Other income	22	410	360
Selling expenses	23	(5,574)	(5,557)
Administrative expenses	24	(3,476)	(4,642)
Result from operating activities		(4,286)	(4,849)
Finance income	26	221	39
Finance cost	26	(817)	(624)
Net finance cost		(596)	(585)
Loss before taxes		(4,882)	(5,434)
Income tax (expense) benefit	28	(103)	81
Net loss		(4,985)	(5,353)
Other comprehensive income, net of taxes		-	9,671
Total comprehensive income for the period, net of taxes		(4,985)	4,318
Loss per share			
Basic and diluted loss per share (in LTL)	13	(0.50)	(0.54)

The accompanying notes on pages from 42 to 66 are an integral part of these financial statements.

These financial statements were approved and signed on 2 April 2012:



General Manager
Audris Imbrasas



Chief Accountant
Rūta Zinkevičienė

DVARČIONIŲ KERAMIKA AB
COMPANY'S SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

	Notes	Share capital	Legal reserve	Revaluation reserve	Accumulated losses	Total equity
Balance as of 31 December 2009		19,811	125	2,902	(6,101)	16,737
Loss for the period		-	-	-	(5,353)	(5,353)
Decrease of revaluation reserve due to depreciation or write-off of revaluated assets		-	-	(762)	530	(232)
Increase in revaluation reserve due to revaluation of assets (Note 5)		-	-	9,903	-	9,903
Balance as of 31 December 2010	12	19,811	125	12,043	(10,924)	21,055
Loss for the period		-	-	-	(4,985)	(4,985)
Decrease of revaluation reserve due to depreciation or write-off of revaluated assets	5	-	-	(1,188)	1,188	-
Balance as of 31 December 2011	12	19,811	125	10,855	(14,721)	16,070

The accompanying notes on pages from 42 to 66 are an integral part of these financial statements.

These financial statements were approved and signed on 2 April 2012:



General Manager
Audris Imbrasas



Chief Accountant
Rūta Zinkevičienė

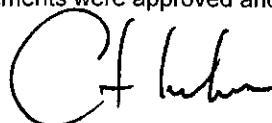
DVARČIONIŲ KERAMIKA AB
COMPANY'S SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

	Notes	2011	2010
Cash flow from operating activities:			
Loss for the year		(4,985)	(5,353)
Adjustments for:			
Depreciation and amortization	5,6,7	4 557	4,020
Net result from disposal and write-off of non-current assets		4	2
Impairment of non-current assets	24	-	1,622
Impairment of trade receivables	10	7	12
Write-off (reversal) of inventory to net realizable value	9	(33)	(140)
Interest, net	26	509	466
Deferred and income tax expenses	28	206	(81)
		<u>265</u>	<u>548</u>
Change in inventories	9	(1,442)	1,349
Change in trade and other receivables	10	800	736
Change in trade and other payables	17	(716)	2,334
Change in prepayments		1,263	569
Change in other payables and accrued expenses	18	495	(191)
		<u>400</u>	<u>4,797</u>
Interest paid		(178)	(376)
Income tax paid		-	(26)
Net cash from operating activities		<u>487</u>	<u>4,943</u>
Cash flows from investing activities:			
Acquisitions of non-current tangible assets	5	(72)	(7)
Acquisitions of intangible assets	6	(2)	(2)
Proceeds from sales of non-current tangible assets		13	5
Interest received	26	4	-
Net cash from/used in investing activities		<u>(57)</u>	<u>(4)</u>
Cash flows from financing activities:			
Loans received	14	-	495
Repayment of loans	14	(320)	(5,310)
Repayment of finance lease	15	(96)	(125)
Net cash used in financing activities		<u>(416)</u>	<u>(4,940)</u>
Net decrease in cash and cash equivalents		14	(1)
Cash and cash equivalents at the beginning of the year	11	<u>107</u>	<u>108</u>
Cash and cash equivalents at the end of the year	11	<u>121</u>	<u>107</u>

The accompanying notes on pages from 42 to 66 are an integral part of these financial statements.

These financial statements were approved and signed on 2 April 2012:



General Manager
Audris Imbrasas



Chief Accountant
Rūta Zinkevičienė

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

1. General Information

Dvarčionių keramika AB (hereinafter – the Company) was registered on 10 June 1994. The Company's code 110628481. The Company's head office is located at Keramiku str. 2, LT-10233, Vilnius, Lithuania.

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

As of 31 December 2011 there were 153 employees in the Company (as of 31 December 2010 – 165).

Shares of Dvarčionių keramika AB are listed in AB NASDAQ OMX Vilnius.

2. Basis for preparation of financial statements

Statement of compliance

The Company's separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and requirements of the Republic of Lithuania Law on Accounting and Financial Reporting.

The board approved and signed annual report and financial statements on 2 April 2012.

The shareholders of the Company have a statutory right either to approve these financial statements or not to approve them and require management to prepare the new financial statements.

The Company does not prepare consolidated financial statements as it does not have any subsidiaries. The Company's individual financial statements (where investment into associate is accounted for using equity method) were not prepared as the equity method would be insignificant comparing to these financial statements.

Basis of preparation of financial statements

The financial statements have been prepared on acquisition cost basis, except for property, plant and equipment which are accounted at revaluated amount.

The financial statements are presented in national Lithuanian currency – Litas (LTL), which is the Company's functional currency.

The financial year of the Company coincides with the calendar year.

Use of estimates and judgments

The preparation of financial statements in accordance with IFRS as adopted by the European Union requires management to make judgments and estimates on the basis of certain assumptions that affect the application of accounting policies and amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are discussed below.

Market uncertainties

The ongoing global liquidity crisis resulted in, among other things, a lower liquidity levels in economy, a lower level of capital market funding and lower liquidity. In addition, Lithuania has been experiencing economic downturn which has affected, and may continue to affect, the activities of enterprises operating in this environment. These financial statements reflect management's assessment of the impact of the Lithuanian and global business environment on the operations and the financial position of the Company. The future developments in business environment may differ from management's assessment.

Useful lives of property, plant and equipment

Asset useful lives are assessed annually and changed when there is a reason to believe that the remaining live of the asset does not reflect to the position of technical condition, prospective economic utilization and physical condition.

Impairment of property, plant and equipment

The Company makes an assessment, at least once per year, whether there are any indicators that property, plant and equipment have suffered impairment. In cases of signs of impairment, the Company performs an impairment test in accordance with accounting policy set out in the Note 3.

Impairment of investments in associates

Since the shares of associated entity are not listed, the Company estimated the recoverable value of the investment based on the carrying value of the Company's share in the associate's net assets, which based on management's judgment approximates its fair value as of 31 December 2011.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

Net realizable value of inventories

The Company, at least once per year, evaluates the net realizable value of inventories and compares it with cost.

Impairment of accounts receivable

The Company makes an assessment, at least once per year, whether the impairment loss should be recorded in the statement of comprehensive income, and makes judgments whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified in individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, international or local economic conditions that influence the group of receivables.

Management evaluates probable cash flows from the debtors based on the historical loss experience related to the debtors with similar credit risks. Methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

Utilization of tax losses

Information about assumptions regarding the utilization of tax losses is included in the Note 28.

3. Significant accounting policies

The accounting policies set out below have been applied to all periods presented in these financial statements.

Foreign currency

Transactions in foreign currency are converted into Litas at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Litas at exchange rates prevailing at that date. Gains and losses arising on exchange are included in the statement of comprehensive income. As of 31 December the applicable rates used for principal currencies were as follows:

	2011	2010	2009
USD	2.6694	2.6099	2.4052
EUR	3.4528	3.4528	3.4528
PLN	0.78506	0.87160	0.83536

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction.

Financial assets

The company initially recognizes loans, amounts receivable and deposits on the date that they are originated. All other financial assets are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

According to IAS 39 Financial instruments: Recognition and Measurement, financial assets are classified into financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. All purchases and sales of financial assets are recognized on the trade date. When financial assets are initially recognized, they are measured at fair value plus, except in case of investments at fair value through profit or loss, directly attributable transaction costs.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transactions costs. After initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash on hand, cash in transit and cash in banks, demand deposits 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.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

Effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The effective interest method is a method of calculating the amortized 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, to the net carrying amount on initial recognition.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

The Company initially recognizes debt securities issued and subordinated liabilities on the date they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has the following non-derivative financial liabilities: loans, borrowings, trade and other payables. Such financial liabilities are recognized initially at fair value plus any directly attributable transactions costs. After initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

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 associates are stated at cost less impairment losses recognized, where the investment's carrying amount exceeds its estimated recoverable amount in the Company's statement of financial position.

Property, plant and equipment

Property, plant and equipment are stated at their revaluated amounts, less any subsequent accumulated depreciation or subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period, usually each five years.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation reserve. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in a profit or loss. However, the decrease shall be debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Depreciation is accounted for on the straight-line basis over the estimated useful lives of the related asset. Revaluated assets are depreciated over the remaining useful lives.

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

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

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

Non-current assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or over the remaining finance lease term, whichever is shorter.

The gain or loss arising on the disposal of an item of non-current assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the 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 other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

Intangible assets

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

Investment property

Investment property of the Company, which consists of investments in buildings held to earn rental revenue, is initially recognized at acquisition cost. Subsequently all investment property is carried at cost less accumulated depreciation and impairment losses.

Transfer from and to investment property are made only when there is an evidence of change in use of asset.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Emission rights

The European Union Emission Allowance Trading Scheme was established by Directive 2003/07/EC and commenced on 1 January 2005. The first phase ran for the three-year period from 2005 to 2007; the second runs for five years from 2008 to 2012 to coincide with the first Kyoto Commitment Period. The scheme works on a Cap and Trade basis. The European Union Member States are required to set an emission cap for each phase for all 'installations' covered by the Scheme. This cap is established in 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 tons of carbon dioxide equivalents) permitted per installation for each phase for which allowances will be allocated on an annual basis.

The 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).

The Member States must ensure that by 30 April of the following year the operator of each installation surrenders a number of allowances equal to the total emissions from the 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 statement of the financial position.

If the Company has a lack of emission rights, the liability is recognized in the statement of financial position, which is estimated by the value of future expenses (economical recourses) required to settle the emission rights 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 the relevant lease.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company 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 statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized in the profit or loss.

Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis over the lease term.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

Inventories

Inventories are stated at the lower of cost or net realizable value. The FIFO method is used as a basis for calculating the cost. The work in progress and finished goods comprise of raw materials, direct labor cost, other direct costs and related production overheads. Net realizable value is estimated selling price in the ordinary course of business less estimated costs of completion and estimated cost necessary to make the sale.

Impairment

Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result event that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected and that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include defaults by the debtors, restructuring of an amount receivable on terms that were not used in normal business relations, indications that a party will enter bankruptcy, the disappearance of an active market of financial assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at individual and collective level. All individually significant receivables are assessed for a specific impairment. All individually significant receivables found not to be specifically impaired are collectively assessed for any impairment that has occurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

Non-financial assets

The carrying amounts of the Company's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU).

The recoverable amount of an asset or cash-generating unit is greater of its value in use and its fair value less costs to sell. 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 risk specific to the asset.

An impairment loss is recognized in the profit or loss if the carrying amount of the asset exceeds its estimated recoverable amount. Impairment losses are recognized in respect of CGUs are firstly allocated to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are reversed when there is evidence that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

Employee benefits

The Company does not have any adopted defined contribution and benefit plans and has no share based payment schemes. Post-employment obligations to employees retired are implemented by the State.

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 Company;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

DVARČIONIŲ KERAMIKA AB

EXPLANATORY NOTES

FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

Sales of services

Sales of services are recognized on performance of the services.

Finance income and finance costs

Finance costs comprise interest expenses on borrowings, fines and profit (loss) from foreign currency change. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Income tax

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 statement of comprehensive income 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. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2011 the income tax applied to the Company is 15 % (2010 – 15 %).

Deferred tax

Deferred tax is recognized on temporary 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. 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. Such deferred assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group and the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income 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 Group 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 that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all diluted potential ordinary shares which comprise convertible notes.

Contingencies

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities in business combinations. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits is probable.

Related parties

Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the Company, 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.

Subsequent events

Subsequent events that provide additional information about the Company's position at the end of the reporting period (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

Determination of fair value

Fair value is defined as the established amount for which the instrument could be exchanged in a current transaction 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.

Management of the Company is of the opinion that carrying amounts of trade and other receivables, trade and other payables as well as borrowings approximate their fair value.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010);
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation);
- Amendments to IFRIC 14 "IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Company's accounting policies.

Standards and Interpretations issued by IASB, adopted by the EU, but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

Standards and Interpretations issued by IASB and not adopted yet by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at March 19, 2012:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015);
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013);
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013);
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after 1 January 2013);
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures;
- Amendments to IAS 1 "Presentation of financial statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the entity's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

4. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- capital management risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Management has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risk faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or other party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

The Company has no significant credit risk concentration, because credit risks are allocated between numerous customers.

The Company accounts for an allowance for impairment that represents its estimate of incurred losses in respect to trade and other receivables. This allowance for impairment includes only specific loss related to particularly significant trade and other receivables.

At the reporting date the maximum credit risk for trade and other receivables by customers could be specified as follows:

	2011		2010	
	Amount receivable	Share, %	Amount receivable	Share, %
Customer 1	466	13	847	19
Customer 2	281	8	499	11
Customer 3	262	7	322	7
Customer 4	244	7	252	6
Customer 5	227	6	232	5
Customer 6	213	6	226	5
Other customers and other receivables	1,954	53	2,076	47
Total	3,647	100	4,454	100

At the reporting date the maximum credit risk for trade and other receivables by geographic regions could be specified as follows:

	2011	2010
Lithuania	1,703	1,677
Euro-zone countries	744	1,771
Ukraine	407	125
Belarus	156	260
Russia	637	621
Total	3,647	4,454

At the reporting date the ageing of trade receivables could be specified as follows:

	2011		2010	
	Total amount	Individually Impaired	Total amount	Individually Impaired
Not overdue	2,843	-	3,329	-
Overdue 0-30 days	466	-	816	1
Overdue 31-60 days	190	-	129	10
Overdue 61-90 days	38	-	69	22
More than 91 day	361	251	371	227
Total	3,898	251	4,714	260

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and complicated conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company seeks to ensure that it has sufficient cash on demand to meet expected operating expenses, including the serving of financial liabilities; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted (for example, natural disasters).

The liquidity risk can be managed by planning the cash flows of the Company. In order to minimize the liquidity risk, cash flows forecasts are prepared.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

Below in the table maturities of undue trade receivables are provided:

	Carrying amount	Contractual cash flows	3 months or less	3-6 months	6-12 months
As of 31 December 2011	2,843	2,843	1,990	853	-
As of 31 December 2010	3,329	3,329	2,330	999	-

The contractual maturities of liabilities, including estimated interest payments are as follows:

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	2-5 years
As of 31 December 2011					
Loans	18,815	(19,224)	(1,115)	(18,109)	-
Finance lease liabilities	173	(178)	(65)	(53)	(60)
Trade payables	6,661	(6,661)	(6,661)	-	-
Prepayments	1,920	(1,920)	(271)	-	(1,649)
Other payables and accrued expenses	2,228	(2,228)	(2,228)	-	-
Total	29,797	(30,211)	(10,340)	(18,162)	(1,709)
As of 31 December 2010					
Loans	18,800	(19,454)	(5,190)	(3,236)	(11,028)
Finance lease liabilities	269	(278)	(58)	(57)	(163)
Trade payables	7,374	(7,374)	(7,374)	-	-
Prepayments	657	(657)	(657)	-	-
Other payables and accrued expenses	1,733	(1,733)	(1,733)	-	-
Total	28,833	(29,496)	(15,012)	(3,293)	(11 191)

Market risk

Market risk is the risk that changes in market prices, interest rates and foreign currency will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest risk

The Company's borrowings are subject to variable interest rates related to VILIBOR, EURIBOR and LIBOR EUR. As of 31 December 2011 the Company did not use any financial instruments to hedge its exposure of cash flow risk related to debt instruments with variable interest rates or price risk related to debt instruments with fixed interest rate.

Financial liabilities with variable interest rate were as follows:

	Contractual currency	2011	2010
Loans	EUR	18,245	17,724
Loans	LTL	570	538
Finance lease liabilities	EUR	173	269
Total		18,988	18,531

The interest rate of these agreements in 2011 is from 1.96% to 5.57% (2010 – from 1.96% to 5.57%).

The change of average annual interest rate of the Company's borrowings by 1 percentage point would increase the interest expenses and decrease the result of the year as of 31 December 2011 by approximately LTL'000 184 (as of 31 December 2010: LTL'000 140).

Currency risk

The functional currency of the Company is Litas (LTL). The Company faces foreign currency risk on purchases and borrowings as well as on sales amounts receivable that are denominated in currencies other than Litas. The risk related to transactions in EUR is considered to be insignificant as the Lithuanian Litas is pegged to EUR at a fixed rate. Changes could occur if the government macroeconomic policy changes.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

During the year, currency exchange rates in respect of Litass were as follows:

	2011		2010	
	31 December	Average	31 December	Average
1 EUR	3.4528	3.4528	3.4528	3.4528
1 USD	2.6694	2.4817	2.6099	2.6067
1 PLN	0.78506	0.84124	0.87160	0.86541

The Company's foreign currency risk was as follows:

	LTL	EUR	USD	PLN
As of 31 December 2011				
Trade and other receivables	1,703	1,797	-	147
Cash and cash equivalents	121	-	-	-
Loans	(570)	(18,245)	-	-
Finance lease liabilities	-	(173)	-	-
Trade payables	(4,030)	(2,310)	(10)	(311)
Total	(2,776)	(18,931)	(10)	(164)

	LTL	EUR	USD	PLN
As of 31 December 2010				
Trade and other receivables	1,677	2,569	-	208
Cash and cash equivalents	61	46	-	-
Loans	(538)	(18,262)	-	-
Finance lease liabilities	-	(269)	-	-
Trade payables	(4,312)	(2,948)	(10)	(104)
Total	(3,052)	(18,910)	(10)	(104)

Equity management

The management's policy is to maintain a significant equity base in comparison to borrowings so as to maintain investors, creditors and market confidence and to sustain future development of the business.

Management also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a higher equity position.

There were no changes in the Company's equity management policy during the financial year.

The company is obligated to keep its equity up to 50% of its share capital, as required by the Law on Companies of Republic of Lithuania.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

5. Property, plant and equipment

As of 31 December the Company's property, plant and equipment consisted of the following:

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Other assets</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Revaluated amount</i>						
As of 31 December 2009	37,082	68,754	1,029	5,294	633	112,792
Additions	-	1	-	6	-	7
Disposals	-	-	-	(18)	-	(18)
Write-offs	-	-	-	(1)	-	(1)
Transfer from investment assets	1,392	238	-	-	-	1,630
Revaluation result	16,144	20,174	-	-	-	36,318
As of 31 December 2010	54,618	89,167	1,029	5,281	633	150,728
Additions	-	28	21	16	-	65
Disposals	-	(104)	(14)	(11)	-	(129)
Write-offs	-	(87)	-	(8)	-	(95)
As of 31 December 2011	54,618	89,004	1,036	5,278	633	150,569
<i>Accrued depreciation and impairment</i>						
As of 31 December 2009	18,488	59,012	802	3,985	633	82,920
Depreciation per year	1,801	1,833	47	323	-	4,004
Disposals	-	-	-	(10)	-	(10)
Write-offs	-	-	-	(5)	-	(5)
Transfer from investment assets	267	222	-	-	-	489
Revaluation result	8,667	17,856	-	-	-	26,523
As of 31 December 2010	29,223	78,923	849	4,293	633	113,921
Depreciation per year	1,981	2,213	49	301	-	4,544
Disposals	-	(97)	(14)	(11)	-	(122)
Write-offs	-	(87)	-	(8)	-	(95)
As of 31 December 2011	31,204	80,952	884	4,575	633	118,248
<i>Carrying amount</i>						
As of 31 December 2010	25,395	10,244	180	988	-	36,807
As of 31 December 2011	23,414	8,052	152	703	-	32,321

Depreciation costs are accounted for in cost of sales, selling and administrative expenses. Depreciation expenses accounted for in cost of sales amounted to LTL'000 3,401 (2010 - LTL'000 3,041), accounted for in selling expenses - LTL'000 464 (2010 - LTL'000 435) and accounted for in administrative expenses - LTL'000 679 (2010 - LTL'000 - 529).

The Company's property, plant and equipment last time were revaluated on 15 November 2010, based on valuation performed by independent appraisers. Valuation was made on the basis of market value for buildings and replacement value method for machinery and equipment.

As of 31 December 2011 the carrying value of buildings if cost model was applied would amount to LTL'000 20,543 (31 December 2010 - LTL'000 22,560), As of 31 December 2011 the carrying value of machinery and equipment if cost model was applied would amount to LTL'000 4,886 (31 December 2010 - LTL'000 6,646),

As of 31 December 2011 the carrying amount of the vehicles, machinery and equipment acquired under finance leases was LTL'000 173 (as of 31 December 2010 - LTL'000 269).

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011

All amounts are in LTL thousands, unless otherwise stated

As of 31 December 2011 the carrying amount of the property, plant and equipment pledged to Swedbank AB for the loan (Note 14) consisted of the following:

	2011	2010
Buildings	23,414	25,357
Machinery and equipment	5,810	9,571
Total	29,224	34,928

Evaluation of property, plant and equipment

Production line not in use

Due to decreasing demand for tiles in January 2009 shareholders made a decision to stop Nasseti production line, and the production line is still not used. While preparing the financial statements for the year ended 31 December 2011 the Company evaluated that recoverable amount, as well as carrying value of Nasseti production line amounts to LTL'000 281 (as of 31 December 2010 – LTL'000 562).

Revaluation of property, plant and equipment

The Company's property, plant and equipment were revaluated on 15 November 2010. The revaluation was performed by independent appraisers. The increase in buildings value by LTL'000 9,014 (reduced by LTL'000 1,352 of deferred tax liability) was recognized in equity's revaluation reserve. The decrease in buildings value amounted to LTL'000 1,537 from which LTL'000 232 reduced equity's revaluation reserve for remaining credits of not depreciated balances that existed in the revaluation reserve as of 31 December 2010 and LTL'000 1,035 were accounted for in expenses in the 2010 statement of comprehensive income. The increase in equipment value amounted to LTL'000 2,636 (reduced by LTL'000 395 of deferred tax liability) and was recognized in equity's revaluation reserve. The decrease in equipment value amounted to LTL'000 317 and was accounted for in expenses in the 2010 statement of comprehensive income.

As of 31 December 2011 revaluation reserve decreased in amount of LTL'000 1,188 due to depreciation expenses and effect of deferred income tax and amounted to LTL'000 10,855.

Assessment of the value in use of property, plant and equipment

The Company also assessed the value in use of the property, plant and equipment as of 31 December 2011. The value in use was determined by discounting the future cash flows generated from the continuing use of the property, plant and equipment. The calculation of the value in use was based on the following key assumptions:

- When estimating the future cash flows, it was expected that the Company's revenue from sales would be 33 million Litass in 2012, whereas in 2013 it would be 43 million Litass with the further growth to 62 million Litass in 2017;
- Monetary inflows for the subsequent periods have been planned by applying 0% growth ratio;
- Gross profit would grow from 17% in 2011 to 22% in 2017, and EBITDA margin would increase from 1% in 2011 to 8% in 2017;
- Discount rate of 9.84% (weighted average cost of capital) was applied in determining the discounted cash flows;
- Cash flows were discounted during the period which is equal to remaining average useful life of property, plant and equipment;
- One CGU was used for impairment test purposes.

Based on these assumptions the recoverable amount of the property, plant and equipment exceeds the carrying value of those assets.

As of 31 December 2010 Company assessed the value in use of the property, plant and equipment using following key assumptions:

- When estimating the future cash flows, it was expected that the Company's revenue from sales would be 30 million Litass in 2011, whereas in 2012 it would be 35 million Litass with the further growth to 43 million Litass in 2015;
- Monetary inflows for the subsequent periods have been planned by applying 2% growth ratio which reflects an expected average pace of economic growth in the future;
- Gross profit would grow from 19% in 2010 to 26% in 2015, and EBITDA margin would increase from 3.2% in 2010 to 14% in 2015;
- Discount rate of 10% was applied in determining the discounted cash flows.

Based on these assumptions, the recoverable amount of the property, plant and equipment exceeded the carrying value of those assets.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

6. Intangible assets

As of 31 December intangible assets consisted of the following:

	<u>Software</u>
Cost	
As of 31 December 2009	420
Additions	2
As of 31 December 2010	422
Additions	2
As of 31 December 2011	424
Accumulated amortization	
As of 1 January 2010	403
Amortization	16
As of 31 December 2010	419
Amortization	3
As of 31 December 2011	422
Carrying amount	
As of 31 December 2010	3
As of 31 December 2011	2

The amortization expenses were included in selling and administrative expenses.

7. Investment property

As of 31 December investment property consisted of the following:

	<u>Buildings</u>
Cost	
As of 31 December 2009	1,725
Transfer to property, plant and equipment	(1,630)
As of 31 December 2010	95
Additions	-
As of 31 December 2011	95
Accumulated depreciation	
As of 31 December 2009	542
Transfer to property, plant and equipment	(489)
As of 31 December 2010	53
Depreciation	10
As of 31 December 2011	63
Carrying amount	
As of 31 December 2010	42
As of 31 December 2011	32

Revenue from lease during 2011 amounted to LTL'000 397 (2010 – LTL'000 351) while revenue from lease of the Company's investment property was LTL'000 52 (2010 – LTL'000 30).

The fair value of investment property corresponds to carrying values.

As of 31 December 2011 the carrying amount of investment property pledged to Swedbank AB for the loan (Note 14) consisted of the following:

	<u>2011</u>	<u>2010</u>
Buildings	32	42

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

8. Investments into associates

As of 31 December investments into associates consisted of the following:

	2011		2010	
	Carrying amount	Ownership %	Carrying amount	Ownership %
Baltijos keramika UAB (Lithuania)	300	30.6	300	30.6
Total	300		300	

The associate is engaged in asset management activities and its book values are close to its fair values. As of 31 December 2011 and 2010 the associate's net assets amounted to LTL 1,055 thousand and LTL 881 thousand respectively.

9. Inventories

As of 31 December inventories consisted of the following:

	2011	2010
Raw and auxiliary materials	2,561	2,207
Finished goods	8,157	6,619
Goods for resale	1,228	1,678
	11,946	10,504
Less: allowance to net realizable value	(422)	(455)
Total	11,524	10,049
Allowance to net realizable value as of 1 January	(455)	(595)
Decrease per year	33	140
Allowance to net realizable value as of 31 December	(422)	(455)

As of 31 December 2010 and 2011 inventories, including raw and auxiliary materials, work in progress, finished goods and goods for resale amounted to LTL'000 10,000 were pledged for the loan from bank (Note 14).

As of 31 December 2011 cost of inventories was reduced to net realizable value by LTL'000 422 (as of 31 December 2010 – LTL'000 455). The write-downs of inventories to net realizable value are recognized in administrative expenses.

10. Trade and other receivables

As of 31 December receivables consisted of the following:

	2011	2010
Trade receivables	3,649	4,563
Prepayments to suppliers	135	110
Prepaid expenses	111	40
Other amounts receivable	3	1
	3,898	4,714
Less: allowance for trade receivables	(251)	(260)
Total	3,647	4,454

For the year ended 31 December movement in the allowance for doubtful debts consisted of the following:

	2011	2010
Allowance of trade and other receivables as of 1 January	260	433
Increase in allowance for the period	7	12
Reversal of allowance for the period	(16)	(185)
Allowance for trade and other receivables as of 31 December	251	260

Increase in allowance for the period amounted to LTL'000 7 (2010 – LTL'000 12) and was recognized in administrative expenses. During 2011 the Company wrote off LTL'000 16 (2010 – LTL'000 185) of bad debts.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

11. Cash and cash equivalents

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

	2011	2010
Cash at bank	28	73
Cash on hand	27	2
Cash in transit	66	32
In total	121	107

Cash in Swedbank AB accounts and future cash inflows are pledged to secure the credit facilities. As of 31 December 2011 the cash balances of the Company in these accounts amounted to LTL'000 3 (Note 14).

12. Share capital and legal reserve

As of 31 December 2011 the Company's share capital consisted of 9,905,460 ordinary shares with the par value LTL 2 each. All shares were fully paid.

The holders of ordinary shares are entitled to one vote per share at shareholder's meeting and are entitled to receive dividends when they are published, as well as the recovery of the share capital in case of share capital's decrease. In 2011 the nominal value of shares has not changed.

On 23 June 2009 a Polish company Cersanit S.A. transferred its control of 92.25 % of Dvarcioniu keramika AB ordinary registered shares to Nusinco Holdings Limited, registered in Cyprus, which on 29 June 2009 sold the share package to Lorton Investment Ltd which is registered in British Virgin Islands.

On 13 July 2009 a Lithuanian company Misota UAB (controlled by Mr. Juozas Raiselis) bought 9,137,525 (92.25 %) ordinary registered shares of Dvarcioniu keramika AB from Lorton Investment Ltd. During 2009 it has published a formal obligatory noncompetitive proposal and purchased additional 68,503 (0.69 %) shares and from 26 November 2009 it owns 9,206,028 (92.93 %) of ordinary registered shares.

The structure of shareholders is as follows:

Shareholders	2011			2010		
	Number of shares	Nominal share value	%	Number of shares	Nominal share value	%
Misota UAB	9,206,028	-	92.93	9,206,028	-	92.93
Others	699,432	-	7.07	699,432	-	7.07
Total	9,905,460	19,811	100.00	9,905,460	19,811	100.00

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net distributable profit are compulsory until the reserve reaches 10% of the authorized capital. This reserve cannot be used to cover accumulated losses.

As of 31 December 2011 the Company's reserve was not fully formed. It consisted only 0.63 % of the share capital and amounted to LTL'000 125.

13. Earnings per share

	2011	2010
Net losses for the year	(4,985)	(5,353)
Weighted average number of shares in issue (thousand)	9,905	9,905
Total	(0.50)	(0.54)

The Company has no issued potential shares or convertible bonds. The diluted profit (loss) per share is the same as the basic profit (loss) per share.

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

14. Loans

As of 31 December loans consisted of the following:

	<u>2011</u>	<u>2010</u>
Within one year	18,815	8,053
In the second year	-	6,141
From the second to fifth year inclusive	-	4,606
After five years	-	-
	<u>18,815</u>	<u>18,800</u>
Less: amount due for settlement within one year	<u>(18,815)</u>	<u>(8,053)</u>
Amounts due for settlement after one year	<u>-</u>	<u>10,747</u>

As of 31 December accrued expenses for loans consisted of the following:

	<u>2011</u>	<u>2010</u>
Swedbank AB	313	30
J. Raišelis	117	65
Total	<u>430</u>	<u>95</u>

Terms and conditions of outstanding loans were as follows.

	Lender	Currency	Nominal interest rate	Year of maturity	31 December 2011		31 December 2010	
					Nominal value	Carrying value	Nominal value	Carrying value
Loan 1	Swedbank AB	EUR	6 months LIBOR EUR +1%	-	17,400	17,400	17,720	17,720
Loan 2	J. Raiselis	EUR	6 months EURIBOR +2,5%	2012	490	490	490	490
Loan 3	J. Raiselis	LTL	12 months VILIBOR + 4%	2012	495	495	495	495
					<u>18,385</u>	<u>18,385</u>	<u>18,705</u>	<u>18,705</u>

The loan from Swedbank AB is secured by property, plant and equipment (Note 5), lease rights (Note 16), inventories (Note 9), cash and cash equivalents (Note 11).

In 2011 the main shareholder of the Company initiated legal actions against Swedbank AB and Dvarčionių keramika AB aiming to recognize asset collateral agreement invalid. As of the balance sheet date the claim was not investigated yet.

Dvarčionių keramika AB also initiated legal actions against Swedbank AB aiming to recognize the unilateral termination of loan agreement illegal and invalid and to derecognize changes in agreement terms. Currently the case is suspended until previous lawsuit will be investigated.

Due to trial processes with Swedbank AB, the term of maturity of loan in amount of LTL'000 17,400 is not clear and not defined.

15. Finance lease liabilities

As of 31 December the minimum lease payments consisted of the following:

	Minimum lease payments		Present value of minimum lease payments	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Within one year	117	113	114	109
From the second to fifth year inclusive	60	165	59	160
Total	<u>177</u>	<u>278</u>	<u>173</u>	<u>269</u>
Less: future finance charges	<u>(4)</u>	<u>(9)</u>	<u>-</u>	<u>-</u>
Present value of lease obligations	<u>173</u>	<u>269</u>	<u>173</u>	<u>269</u>

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

Terms and conditions of outstanding leases were as follows.

	Lender	Currency	Nominal interest rate	Year of maturity	31 December 2011		31 December 2010	
					Nominal value	Carrying value	Nominal value	Carrying value
Finance lease 1	UAB DnB Nord lizingas	EUR	6 months EURIBOR + 1,3%	2013	19	19	32	32
Finance lease 2	UAB DnB Nord lizingas	EUR	6 months EURIBOR + 1,5%	2013	85	85	133	133
Finance lease 3	UAB DnB Nord lizingas	EUR	6 months EURIBOR + 1,5%	2013	43	43	69	69
Finance lease 4	UAB DnB Nord lizingas	EUR	6 months EURIBOR + 1,35%	2013	13	13	20	20
Finance lease 5	UAB Swedbank lizingas	EUR	5,57%	2011	-	-	5	5
Finance lease 6	UAB Swedbank lizingas	EUR	5,57%	2011	-	-	5	5
Finance lease 7	UAB Swedbank lizingas	EUR	5,57%	2011	-	-	5	5
					160	160	269	269

The Company's obligations under financial leases are secured by the leased assets.

16. Operating lease

The Company as lessee

The non-cancellable operating lease rentals of premises and vehicles are payable as follows:

	2011	2010
Within one year	19	24
Between one to five years	-	12
After five years	-	-
Total	19	36

The non-cancellable operating lease rentals consist of the rentals of vehicles. The Company does not have non-cancellable lease agreements for premises.

The Company leases a land of 10.7 ha situated in Keramikų str. 2, Vilnius. The land lease matures in 2097 without buy out possibilities. In addition, clay quarry is leased in Ukmerge and minor land plots in Kaunas, Klaipeda, Šiauliai, Utena.

The land lease rights are pledged to Swedbank AB for the financial facility granted (Note 14).

The Company as lessor

The Company leases out its investment property held under operating leases (Note 7). However, the Company does not have non-cancellable lease agreements. As of 31 December 2011 income from lease amounted to LTL'000 397 and was recognized as other income in statement of comprehensive income.

17. Trade payables

As of 31 December trade payables consisted of the following:

	2011	2010
Amounts payables:		
Lithuanian suppliers	4,030	4,797
Foreign suppliers	2,631	2,577
	6,661	7,374
Less: amount due for settlement within one year	(6,661)	(7,374)
Amount due for settlement after one year	-	-

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

18. Other payables and accrued expenses

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

	<u>2011</u>	<u>2010</u>
Salaries payable	1,206	756
Taxes payable	534	475
Vacation reserve	406	409
Other amounts payable	82	93
Total	<u>2,228</u>	<u>1,733</u>

19. Revenue

For the year ended 31 December revenue consisted of the following:

	<u>2011</u>	<u>2010</u>
Revenue from produced goods	19,372	18,265
Revenue from goods for resale	4,945	6,805
Revenue from services	780	48
Revenue from raw materials sold	30	581
Total	<u>25,127</u>	<u>25,699</u>

20. Operating segments

For management purposes, the Company segregates two operating segments. Information, as reviewed by the chief operating decision maker of the Company, regarding the results of each reportable segment that is used to measure the performance of the Company is included below:

	<u>Wholesale</u>		<u>Retail sale</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue from produced goods	13,285	12,840	6,087	5,425	19,372	18,265
Revenue from goods for resale	2,839	3,846	2,106	2,959	4,945	6,805
Revenue from raw materials	30	48	-	-	30	48
Revenue from services	768	565	12	16	780	581
Total revenue	<u>16,922</u>	<u>17,299</u>	<u>8,025</u>	<u>8,400</u>	<u>25,127</u>	<u>25,699</u>
Cost of segment	(14,527)	(14,729)	(6,246)	(5,980)	(20,773)	(20,709)
Result of segment	<u>2,395</u>	<u>2,570</u>	<u>1,959</u>	<u>2,420</u>	<u>4,354</u>	<u>4,990</u>
Unallocated expenses	-	-	-	-	(9,050)	(10,199)
Unallocated other activity income, net	-	-	-	-	410	360
Result from operating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,286)</u>	<u>(4,849)</u>
Interest expenses	-	-	-	-	(509)	(466)
Other financial expenses, net	-	-	-	-	(87)	(119)
Income tax	-	-	-	-	(103)	81
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,985)</u>	<u>(5,353)</u>
Segment assets	17,686	19,515	5,760	5,922	23,446	25,437
Unallocated assets	-	-	-	-	24,501	26,429
Total assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,947</u>	<u>51,866</u>
Unallocated liabilities	-	-	-	-	31,877	30,811
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,877</u>	<u>30,811</u>

Total amount of Company's sale to foreign customers in 2011 amounted to LTL'000 12,140 (in 2010 – LTL'000 13,279).

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

21. Cost of sales

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

	<u>2011</u>	<u>2010</u>
Cost of sales of produced goods	17,541	15,717
Cost of sales of goods for resale	3,223	4,988
Cost of sales of raw materials	9	4
Total	<u>20,773</u>	<u>20,709</u>

22. Other income

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

	<u>2011</u>	<u>2010</u>
Rent and other income, net result	418	359
Net results on disposals and write-offs of non-current assets	(8)	1
Total	<u>410</u>	<u>360</u>

23. Selling expenses

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

	<u>2011</u>	<u>2010</u>
Personnel expenses	1,805	1,923
Transportation expenses	1,384	1,375
Rent expenses	549	589
Depreciation and amortization	464	435
Marketing expenses	182	236
Advertisement and exhibition expenses	175	120
Business trip expenses	109	118
Communication expenses	58	159
Bank service expenses	35	39
Security expenses	28	27
Representation expenses	18	15
Own transportation expenses	8	29
Insurance expenses	3	2
Other expenses	756	490
Total	<u>5,574</u>	<u>5,557</u>

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

24. Administrative expenses

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

	<u>2011</u>	<u>2010</u>
Personnel expenses	1,226	1,350
Depreciation and amortization	679	529
Tax expenses	285	200
Depreciation of not used Nasseti production line	281	281
Security expenses	155	150
Transport expenses	99	102
Consultation expenses	76	82
Repair and maintenance expenses	56	33
Insurance expenses	40	94
Bank service expenses	38	27
Audit expenses	32	34
Communication expenses	25	26
Business trip expenses	22	10
Representation expenses	11	8
Allowance for accounts receivable	7	12
Postal service, subscription expenses	4	3
Training expenses	1	2
Impairment of non-current assets	-	1,622
Inventory write down (reversal) to net realizable value	(33)	(140)
Other expenses	472	217
Total	<u>3 476</u>	<u>4 642</u>

25. Remuneration expenses

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

	<u>2011</u>	<u>2010</u>
Salaries	4,130	4,135
Compulsory social security contributions	1,279	1,279
Increase in vacation reserve	125	27
Total	<u>5,534</u>	<u>5,441</u>

26. Finance activity income and expenses, net

For the year ended 31 December financial activity income and expenses consisted of the following:

	<u>2011</u>	<u>2010</u>
Gain on currency exchange	97	25
Interest income	4	-
Fines and penalties received	2	14
Discounting effect of long term prepayments	118	-
Finance activity income	<u>221</u>	<u>39</u>
Interest expenses	513	466
Fines and penalties paid	180	117
Loss on currency exchange	124	41
Finance activity expenses	<u>817</u>	<u>624</u>
Net finance activity expenses, net	<u>(596)</u>	<u>(585)</u>

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

27. Interest expenses

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

	<u>2011</u>	<u>2010</u>
Interest on loans	506	456
Interest on finance lease	7	10
Total	<u>513</u>	<u>466</u>

28. Income tax (expenses) benefit

Reconciliation of effective tax rate:

	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Loss before taxes	(4,882)		(5,434)	
Income tax at statutory tax rate	(732)	15.0	(815)	15.0
Non-deductible expenses (tax exempt income)	536	11.0	646	(12.0)
Current year losses for which no deferred tax asset was recognized	299	6.0	88	(1.6)
Effect of tax rate change	-	-	-	-
Income tax expenses (benefit)	<u>103</u>	<u>2.0</u>	<u>(81)</u>	<u>(1.4)</u>

The components of income tax expense are as follows:

Current income tax expenses	-	-
Adjustment of income tax	-	-
Net decrease in deferred tax liability	103	(81)
Income tax expenses (benefit)	<u>103</u>	<u>(81)</u>

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 statement of financial position 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.

As of 31 December deferred tax consisted of the following:

	<u>2011</u>		<u>2010</u>	
	<u>Temporary differences</u>	<u>Deferred tax (15%)</u>	<u>Temporary differences</u>	<u>Deferred tax (15%)</u>
Deferred tax asset				
Impairment of receivables	251	38	260	39
Write-down of inventories to net realizable value	422	63	455	68
Vacation reserve	534	80	409	61
Tax losses carried forward	3,121	468	1,124	169
Deferred tax asset		<u>649</u>		<u>337</u>
Unrecognized deferred tax asset		(468)		(169)
Recognized deferred tax asset		<u>181</u>		<u>168</u>
Deferred tax liability				
Non-current tangible assets	15,071	(2,261)	14,308	(2,146)
Deferred tax liability		<u>(2,261)</u>		<u>(2,146)</u>
Deferred tax liability, net		<u>(2,080)</u>		<u>(1,978)</u>

DVARČIONIŲ KERAMIKA AB
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2011
All amounts are in LTL thousands, unless otherwise stated

In 2011 deferred tax asset has not been recognized in respect of tax losses carried forward because it is uncertain that sufficient taxable profit will be available in the future which will let to utilize this asset.

Under current legislation Company's tax losses can be carried forward indefinitely, if economic activity from which losses originated is continued.

29. Related party transactions

The transactions with related parties were as follows:

- Baltijos keramika UAB (associate);
- Ultimate shareholder Juozas Raišelis;
- Dvarčionių prekyba UAB (entity controlled by Company's ultimate shareholder);
- Raico Group UAB (entity controlled by Company's ultimate shareholder);
- Misota UAB (the shareholder of the Company);
- Car care UAB (entity controlled by Company's ultimate shareholder);
- Mr. Audris Imbrasas (key management personnel);
- Dvarčia UAB (entity controlled by Company's ultimate shareholder).

a) transactions with related parties

	Baltijos keramika UAB		Juozas Raišelis		Audris Imbrasas		Dvarčionių prekyba UAB	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue:								
Sale of goods	-	-	-	-	-	-	16	-
Other	1	-	-	-	104	-	-	-
Total	1	-	-	-	104	-	16	-
Loans received	-	-	-	495	-	-	-	-
Financial expenses (interest)	-	-	53	60	-	-	-	-
Total	-	-	53	555	-	-	-	-

	Raico group UAB		Dvarčia UAB		Misota UAB		Car care UAB	
	2011	2010			2011	2010	2011	2010
Revenue:								
Sales of goods	-	-	-	53	-	-	76	-
Other	-	-	-	10	-	-	-	-
Total	-	-	-	63	-	-	76	-
Operating expenses	337	247	-	63	40	-	72	34
Total	337	247	-	63	40	-	72	34

DVARČIONIŲ KERAMIKA AB**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2011**

All amounts are in LTL thousands, unless otherwise stated

b) balances of accounts receivable/payable between related parties

	Baltijos keramika UAB		Juozas Raišelis		Audris Imbrasas		Dvarčionių prekyba UAB		Car care UAB	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Trade and other receivables	-	-	-	-	-	-	20	-	18	13
Total	-	-	-	-	-	-	20	-	18	13
Accrued interest	-	-	117	65	-	-	-	-	-	-
Loans received	-	-	985	985	-	-	-	-	-	-
Trade payables	96	107	-	-	-	-	-	-	-	-
Prepayments	-	-	-	-	104	-	-	-	-	-
Total	96	107	1 102	1 050	104	-	-	-	-	-

	Misota UAB		Raico Group UAB	
	2011	2010	2011	2010
Trade payables	-	-	69	-
Prepayments*	422	500	1 227	32
Total	422	500	1 296	32

* For the year ended December 2011 prepayments received from Misota UAB (in amount of LTL'000 422) and Raico group UAB (in amount of LTL'000 1,227) consisted of prepayments for long term assets according to preliminary purchase-sale agreements. The main purchase-sale agreements are going to be signed in 2013.

Remuneration expenses related to Company's management in 2011 amounted to LTL'000 381 (2010 – LTL'000 477). Average number of Company's managers in 2011 and 2010 – 5.

30. Subsequent events

There were no subsequent events which could have a material impact to the financial statements for the period ended as of 31 December 2011.

31. Commitments and off balance sheet items

As of 31 December commitments consisted of the following:

	2011	2010
Asset insurance payments (compulsory according to the loan contract)	49	75
Finance lease interest till full repayment of lease	1	9
Loan interest till maturity	396	649
Total	446	733

Emission rights movement:

	2011	2010
Balance as of 1 January, units	31 011	36,451
Allocated for the Company for the year, units	-	-
Consumed by the Company during the year, units	(6 204)	(5,440)
Balance as of 31 December, units	24 807	31,011

The emission rights allocated to the Company for the period from 2008 to 2012 amounted to 56,127 units.

32. Claims and litigations

As of 31 December 2011 and 2010 the Company was not involved in any legal proceedings, which in management's opinion would have a material impact on the financial statements, except for legal case with major Company's creditor Swedbank AB, as disclosed in Note 14.

33. Going concern

The Company's financial statements for the year ended 31 December 2011 were prepared assuming that the Company will continue as a going concern.

During 2011 the Company incurred LTL'000 4,985 of net losses (net losses in 2010 were LTL'000 5,353) and the Company's current ratio (current assets in total/current liabilities in total) was 0.54 as of 31 December 2011 (0.82 – as of 31 December 2010).

The Company's management prepared the 2012 forecast; based on it the forecasted 2012 cash flows are sufficient to assure the repayment of short term and long term liabilities. Management also plans to refinance current loans and postpone the payment of loans for a longer period.

The Company's management puts significant efforts, seeking to ensure Company's liquidity and ability to continue as a going concern. The management is convinced that these efforts will minimize the drop of Company's value. Non profitable products were replaced by newly implemented products. The Company achieved significant decrease in raw material prices, also the management managed to extend payment terms with suppliers. The Company signed new agreements with energy suppliers. New packaging solution has been implemented, which resulted in more production sold per package and lower various other, including transportation costs. The management has initiated the project of enlargement of manufacturing capacities, which could result in higher sales income. Also few loss generating sales units were shut down – 2 brand shops were closed. The Company is permanently looking for new opportunities in Western and Eastern markets.

After evaluating the circumstances noted above, the Company's management believes that the Company will continue its activity in 2012 and beyond.

* * * *

32. Claims and litigations

As of 31 December 2011 and 2010 the Company was not involved in any legal proceedings, which in management's opinion would have a material impact on the financial statements, except for legal case with major Company's creditor Swedbank AB, as disclosed in Note 14.

33. Going concern

The Company's financial statements for the year ended 31 December 2011 were prepared assuming that the Company will continue as a going concern.

During 2011 the Company incurred LTL'000 4,985 of net losses (net losses in 2010 were LTL'000 5,353) and the Company's current ratio (current assets in total/current liabilities in total) was 0.54 as of 31 December 2011 (0.82 – as of 31 December 2010).

The Company's management prepared the 2012 forecast; based on it the forecasted 2012 cash flows are sufficient to assure the repayment of short term and long term liabilities. Management also plans to refinance current loans and postpone the payment of loans for a longer period.

The Company's management puts significant efforts, seeking to ensure Company's liquidity and ability to continue as a going concern. The management is convinced that these efforts will minimize the drop of Company's value. Non profitable products were replaced by newly implemented products. The Company achieved significant decrease in raw material prices, also the management managed to extend payment terms with suppliers. The Company signed new agreements with energy suppliers. New packaging solution has been implemented, which resulted in more production sold per package and lower various other, including transportation costs. The management has initiated the project of enlargement of manufacturing capacities, which could result in higher sales income. Also few loss generating sales units were shut down – 2 brand shops were closed. The Company is permanently looking for new opportunities in Western and Eastern markets.

After evaluating the circumstances noted above, the Company's management believes that the Company will continue its activity in 2012 and beyond.

* * * *

32. Claims and litigations

As of 31 December 2011 and 2010 the Company was not involved in any legal proceedings, which in management's opinion would have a material impact on the financial statements, except for legal case with major Company's creditor Swedbank AB, as disclosed in Note 14.

33. Going concern

The Company's financial statements for the year ended 31 December 2011 were prepared assuming that the Company will continue as a going concern.

During 2011 the Company incurred LTL'000 4,985 of net losses (net losses in 2010 were LTL'000 5,353) and the Company's current ratio (current assets in total/current liabilities in total) was 0.54 as of 31 December 2011 (0.82 – as of 31 December 2010).

The Company's management prepared the 2012 forecast; based on it the forecasted 2012 cash flows are sufficient to assure the repayment of short term and long term liabilities. Management also plans to refinance current loans and postpone the payment of loans for a longer period.

The Company's management puts significant efforts, seeking to ensure Company's liquidity and ability to continue as a going concern. The management is convinced that these efforts will minimize the drop of Company's value. Non profitable products were replaced by newly implemented products. The Company achieved significant decrease in raw material prices, also the management managed to extend payment terms with suppliers. The Company signed new agreements with energy suppliers. New packaging solution has been implemented, which resulted in more production sold per package and lower various other, including transportation costs. The management has initiated the project of enlargement of manufacturing capacities, which could result in higher sales income. Also few loss generating sales units were shut down – 2 brand shops were closed. The Company is permanently looking for new opportunities in Western and Eastern markets.

After evaluating the circumstances noted above, the Company's management believes that the Company will continue its activity in 2012 and beyond.

* * * *

32. Claims and litigations

As of 31 December 2011 and 2010 the Company was not involved in any legal proceedings, which in management's opinion would have a material impact on the financial statements, except for legal case with major Company's creditor Swedbank AB, as disclosed in Note 14.

33. Going concern

The Company's financial statements for the year ended 31 December 2011 were prepared assuming that the Company will continue as a going concern.

During 2011 the Company incurred LTL'000 4,985 of net losses (net losses in 2010 were LTL'000 5,353) and the Company's current ratio (current assets in total/current liabilities in total) was 0.54 as of 31 December 2011 (0.82 – as of 31 December 2010).

The Company's management prepared the 2012 forecast; based on it the forecasted 2012 cash flows are sufficient to assure the repayment of short term and long term liabilities. Management also plans to refinance current loans and postpone the payment of loans for a longer period.

The Company's management puts significant efforts, seeking to ensure Company's liquidity and ability to continue as a going concern. The management is convinced that these efforts will minimize the drop of Company's value. Non profitable products were replaced by newly implemented products. The Company achieved significant decrease in raw material prices, also the management managed to extend payment terms with suppliers. The Company signed new agreements with energy suppliers. New packaging solution has been implemented, which resulted in more production sold per package and lower various other, including transportation costs. The management has initiated the project of enlargement of manufacturing capacities, which could result in higher sales income. Also few loss generating sales units were shut down – 2 brand shops were closed. The Company is permanently looking for new opportunities in Western and Eastern markets.

After evaluating the circumstances noted above, the Company's management believes that the Company will continue its activity in 2012 and beyond.

* * * *