# AB GRIGIŠKĖS

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

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Grigiškės AB:

**Report on the Financial Statements**
We have audited the accompanying financial statements (page 6 to 42) of Grigiškės AB (thereafter – the Company) and the consolidated financial statements of the Company and subsidiary (thereafter – the Group), which comprise the balance sheet and the consolidated balance sheet as at 31 December 2006, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

*Auditor's Responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the following section, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

*Basis for the qualified opinion*
As was the case for the year ended 31 December 2005, the Group's and the Company's property, plant and equipment as of 31 December 2006, include assets with a carrying amount of LTL'000 21,707 (LTL'000 22,433 as of 31 December 2005) which are accounted for using the historical cost adjusted for indexation, using indexation rates set by the Lithuanian Government less subsequent depreciation and impairment loss. In accordance with International Financial Reporting Standards as adopted by the European Union (EU), property, plant and equipment must be measured either at fair value or at historical cost less subsequent depreciation and impairment losses. We have not been able to satisfy ourselves whether the assets referred to above, with a carrying amount of LTL'000 21,707 as of 31 December 2006 (LTL'000 22,433 as of 31 December 2005), are fairly stated in accordance with International Financial Reporting Standards as adopted by the European Union.

*Qualified opinion*
In our opinion, except for the impact, if any, on the financial statements and the consolidated financial statements of the matter referred to in the preceding paragraph, the financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2006 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Emphasis of Matter*
Without qualifying our opinion we draw attention to the fact that, as discussed in Note 16 to the financial statements, as of 31 December 2006 the Company's subsidiary was not in compliance with certain loan covenants of its long term loan agreements.

**Report on Other Legal and Regulatory Requirements**
Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2006 (page 4 to 5) and have not noted any material inconsistencies between the historical financial information included in it and the financial statements for the year ended 31 December 2006.

UAB Deloitte Lietuva
General Director Juozas Kabašinskas

Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

Vilnius, Lithuania
24 March 2007

The Group comprised of AB Grigiškės and its subsidiary UAB Baltwood (hereinafter referred to as "the Group") completed the year 2006 quite successfully. The Group increased its turnover by more than 14%, reached profit in the amount of LTL 120 million and earned LTL 5.4 million net audited profit, as compared to the previous period. Increase in sales was basically determined by the development and modernisation of production capacities of the Company and of the Group and introduction of new products.

In 2006, investments of the Group amounted nearly to LTL 25 million. Quite a big portion thereof was used to increase hardboard production capacities. A modern German hardboard cutting-dimensioning machine was put into operation in replacement of former two cutting machines. The new machine increased hardboard cutting capacities more than twice. In addition, a hardboard sanding and patching line of higher performance was commissioned and chip processing section was modernised. Modernisation of the equipment ensures sales of products of higher quality and higher added value.

A new Italian industrial paper processing line was put into operation. This line enabled increase of products intended for the use in holders for up to 4 times. One of the largest production development project is close to being implemented, i.e., a papermaking machine which will enable significant increase of production capacities, manufacturing of higher quality and cost-effective products.

As for production of corrugated board boxes, here a new automatic box making equipment was implemented in addition to the modernisation of some of the existing equipment. The mentioned investment resulted in added production capacities, ensured manufacturing at lower energy and wage input per unit, and enabled expansion of the existing market share owing to lower prices.

A modern automatic plywood line for furniture panels was put into operation at the end of the year.

A project for the installation of a smoke condensation economiser was accomplished. This significantly reduced pollutant emission and temperature of emitted smoke. In addition, the above-mentioned implemented measures will enable saving of natural resources, more cost-effective and optimal activities of the Company, concurrently maintaining ecological and healthy natural environment. Implementation of the mentioned project cost LTL 500 thousand. The project was co-funded by the Investment Fund of the Lithuanian Ministry of Environment which assigned LTL 341 thousand for the mentioned project.

Implementation of the development and modernisation projects enabled the Company to ensure production manufacturing at lower energy and wage input per production unit and expansion of the existing market share owing to lower prices. Over the reporting period the Company placed products on the local market for LTL 71.7 million. Exports to the EU and other countries amounted to LTL 48.3 million.

The organisational structure of the Company was further improved in 2006. The Technical Department was rearranged in order to optimise industrial maintenance by means of dedicating functions of repair services according to special purposes.

Comparison of the financial indicators of the Company in 2005 – 2006 is presented in the table below:

| Indicator | The Group | | The Company | |
|---|---|---|---|---|
| | **31 December 2006** | **31 December 2006** | **31 December 2006** | **31 December 2006** |
| Profit per share (LTL) | 0.13 | 0.25 | 0.16 | 0.24 |
| Gross profit margin (%) | 20.7 | 24.9 | 21.1 | 24.7 |
| Net profit margin (%) | 4.5 | 9.6 | 5.8 | 9.3 |
| Return on assets (%) | 4.3 | 9.3 | 5.6 | 9.8 |
| Return on equity (%) | 7.9 | 15.6 | 9.5 | 15.0 |
| Debts to equity ratio | 0.8 | 0.7 | 0.6 | 0.5 |
| Debts ratio | 0.4 | 0.4 | 0.4 | 0.3 |

AB Grigiškės has two subsidiaries: UAB Baltwood, which core business is wood processing, and UAB Grigiškių Transporto Centras, which core business is sale of second-hand vehicles (the latter company has not conducted any business since 2006). In addition, the Company has established a representative office in the Republic of Latvia.

The capital of the Company consists of 39,956,657 ordinary shares of LTL 1 par value. All shares of the Company have been fully paid up.

The Company did not purchase or sell its own shares during the reporting period.

### Plans for the Year 2007

In 2007, the Group plans to increase the turnover by 32.5% and to sell products and services for LTL 159 million. The Group expects to earn LTL 6.9 million net profit and to have LTL 20.8 million net cash flow.

A new papermaking machine is expected to start operating at the end of the first half year.

It is also planned to acquire a consumables converter line of higher efficiency in order to have balanced capacities in papermaking and paper processing, and to manufacture high-quality end products.

In 2007, the Company plans to acquire an automated line for making boxes from corrugated cardboard. Capacities of this line will significantly increase production capacities and scope of sales.

In 2006, AB Grigiškės received funds from the EU support funds under project "Improvement of competence of industrial workers". The Company will use project opportunities to raise employees' qualifications, to receive the most up-to-date and relevant news in the fields of business management, production organisation and production process assurance as well as to improve competitiveness of the Company.

APPENDIX:
Disclosure of conformity to the Code of Management Practices (from 43 to 63 pages)

Chairman of the Board Gintautas Pangonis

## BALANCE SHEET
## AT 31 DECEMBER 2006

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | | as restated (Note 29) | | as restated (Note 29) |
| **ASSETS** | **Notes** | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | **5** | 89,191,231 | 75,493,498 | 76,666,372 | 64,304,306 |
| Intangible assets | **6** | 2,620,007 | 2,540,814 | 308,115 | 196,677 |
| Investments in subsidiary | **9** | - | - | 5,005,000 | 5,005,000 |
| Loans granted | **10** | - | 9,677 | - | 9,677 |
| **Total non current assets** | | **91,811,238** | **78,043,989** | **81,979,487** | **69,515,660** |
| **Current assets** | | | | | |
| Cash and cash equivalents | **12** | 571,439 | 667,557 | 461,447 | 141,254 |
| Loans granted | **10** | 9,677 | 19,145 | 9,677 | 19,145 |
| Trade and other receivables | **11** | 16,917,534 | 15,864,482 | 17,894,727 | 15,607,080 |
| Inventories | **13** | 11,694,518 | 11,176,188 | 9,388,146 | 8,747,828 |
| Other assets | | 489,565 | 331,171 | 374,741 | 303,353 |
| **Total current assets** | | **29,682,733** | **28,058,543** | **28,128,738** | **24,818,660** |
| **TOTAL ASSETS** | | **121,493,971** | **106,102,532** | **110,108,225** | **94,334,320** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | **14** | 39,956,657 | 39,956,657 | 39,956,657 | 39,956,657 |
| Legal reserve | **14** | 3,995,665 | 3,693,300 | 3,995,665 | 3,693,300 |
| Retained earnings | | 23,844,784 | 20,761,041 | 23,027,692 | 18,982,309 |
| **Total equity** | | **67,797,106** | **64,410,998** | **66,980,014** | **62,632,266** |
| **Non-current liabilities** | | | | | |
| Grants | **15** | 341,401 | - | 341,401 | - |
| Bank loans | **16** | 10,410,508 | 3,992,038 | 10,410,508 | 3,992,038 |
| Obligations under finance leases | **17** | 7,518,420 | 7,206,604 | 6,558,124 | 6,567,458 |
| Deferred tax liability | **24** | 945,202 | 1,022,205 | 597,735 | 669,672 |
| **Total non-current liabilities** | | **19,215,531** | **12,220,847** | **17,907,768** | **11,229,168** |
| **Current liabilities** | | | | | |
| Bank loans | **16** | 12,192,272 | 7,969,201 | 5,404,963 | 1,450,176 |
| Obligations under finance leases | **17** | 4,116,967 | 3,588,633 | 3,732,432 | 3,295,254 |
| Factoring | | 39,170 | 738,092 | - | - |
| Trade and other payables | **18** | 18,132,925 | 17,174,761 | 16,083,048 | 15,727,456 |
| **Total current liabilities** | | **34,481,334** | **29,470,687** | **25,220,443** | **20,472,886** |
| **Total liabilities** | | **53,696,865** | **41,691,534** | **43,128,211** | **31,702,054** |
| **TOTAL EQUITY AND LIABILITIES** | | **121,493,971** | **106,102,532** | **110,108,225** | **94,334,320** |

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

The financial statements were approved by the management on 24 March 2007 and signed on its behalf by:

| | |
|---|---|
| Gintautas Pangonis<br>General Director | Nina Šilerienė<br>Chief Accountant |

## INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2006

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Notes | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Sales | **19** | 119,989,277 | 104,756,369 | 110,119,282 | 101,314,104 |
| Cost of sales | **19** | (95,147,613) | (78,679,698) | (86,924,830) | (76,305,511) |
| **Gross profit** | | **24,841,664** | **26,076,671** | **23,194,452** | **25,008,593** |
| Other operating income | **20** | 2,390,228 | 2,727,451 | 2,466,167 | 2,766,306 |
| Release of negative goodwill to income | **26** | - | 1,019,477 | - | - |
| Selling and distribution expenses | **22** | (8,921,416) | (8,412,765) | (7,949,337) | (8,038,393) |
| Administrative expenses | **23** | (9,540,667) | (9,033,196) | (8,348,320) | (8,577,771) |
| Other operating expenses | **21** | (188,225) | (81,447) | (188,225) | (81,447) |
| **Profit from operations** | | **8,581,584** | **12,296,191** | **9,174,737** | **11,077,288** |
| Share of loss in associates | **8** | - | (463,994) | - | - |
| Interest income | | 480 | 507,037 | 480 | 507,004 |
| Finance costs | | (1,300,138) | (709,264) | (941,096) | (566,535) |
| Net foreign exchange (loss) gain | | (102,732) | 46,785 | (98,843) | 43,070 |
| Other finance income | | 722 | - | 22 | - |
| Other finance expenses | | (14,450) | (19,239) | (3,128) | (11,120) |
| **Profit before income tax** | | **7,165,466** | **11,657,516** | **8,132,172** | **11,049,707** |
| Income tax expense | **24** | (1,779,358) | (1,628,815) | (1,784,424) | (1,630,815) |
| **NET PROFIT** | | **5,386,108** | **10,028,701** | **6,347,748** | **9,418,892** |
| **Basic and diluted earnings per share** | **25** | **0.13** | **0.25** | **0.16** | **0.24** |

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

The financial statements were approved by the management on 24 March 2007 and signed on its behalf by:

| | |
|---|---|
| Gintautas Pangonis | Nina Šilerienė |
| General Director | Chief Accountant |

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2006

| The Group | Share capital LTL | Legal reserve LTL | Retained earnings LTL | Total LTL |
|---|---|---|---|---|
| **At 1 January 2005** | **39,956,657** | **3,406,400** | **13,019,240** | **56,382,297** |
| Transfer to legal reserve | - | 286,900 | (286,900) | - |
| Dividends paid | - | - | (2,000,000) | (2,000,000) |
| Net profit | - | - | 10,028,701 | 10,028,701 |
| **At 31 December 2005 (as restated, note 29)** | **39,956,657** | **3,693,300** | **20,761,041** | **64,410,998** |
| Transfer to legal reserve | | 302,365 | (302,365) | - |
| Dividends paid | - | - | (2,000,000) | (2,000,000) |
| Net profit | - | - | 5,386,108 | 5,386,108 |
| **At 31 December 2006** | **39,956,657** | **3,995,665** | **23,844,784** | **67,797,106** |

| The Company | Share capital LTL | Legal reserve LTL | Retained earnings LTL | Total LTL |
|---|---|---|---|---|
| **At 1 January 2005** | **39,956,657** | **3,406,400** | **11,850,317** | **55,213,374** |
| Transfer to legal reserve | - | 286,900 | (286,900) | - |
| Dividends paid | - | - | (2,000,000) | (2,000,000) |
| Net profit | - | - | 9,418,892 | 9,418,892 |
| **At 31 December 2005 (as restated, note 29)** | **39,956,657** | **3,693,300** | **18,982,309** | **62,632,266** |
| Transfer to legal reserve | - | 302,365 | (302,365) | - |
| Dividends paid | - | - | (2,000,000) | (2,000,000) |
| Net profit | - | - | 6,347,748 | 6,347,748 |
| **At 31 December 2006** | **39,956,657** | **3,995,665** | **23,027,692** | **66,980,014** |

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

The financial statements were approved by the management on 24 March 2007 and signed on its behalf by:

| | |
|---|---|
| Gintautas Pangonis<br>General Director | Nina Šilerienė<br>Chief Accountant |

## CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2006

| | The Group | | The Company | |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** |
| Profit before income tax | 7,165,466 | 11,657,516 | 8,132,172 | 11,049,707 |
| Adjustments for: | | | | |
| Depreciation and amortization | 10,176,927 | 6,904,103 | 8,864,749 | 6,283,841 |
| Release of negative goodwill to income | - | (1,019,477) | - | - |
| Share of loss of associates | - | 463,994 | - | - |
| Interest income | (480) | (507,037) | (480) | (507,004) |
| Finance costs | 1,300,138 | 709,264 | 941,096 | 566,535 |
| Net foreign exchange loss (gain) | 102,732 | (46,785) | 98,843 | (43,070) |
| Profit on disposal of fixed assets | (88,159) | (92,598) | (88,159) | (91,985) |
| Profit on disposal of emission rights | (1,307,748) | - | (1,307,748) | - |
| Provisions (reversal) for slow moving inventory, write off to net realisable value and low value inventory | 184,515 | 78,264 | (100,783) | 75,218 |
| Fixed assets impairment losses (reversal) | (267,807) | (31,464) | (267,807) | (31,464) |
| Goodwill impairment | - | 453 | - | - |
| Investments in subsidiary impairment | - | 35,072 | - | 35,072 |
| Provision for doubtful accounts receivable (reversal), write off of bad accounts receivables | (41,215) | (959,214) | (41,215) | (959,214) |
| | 17,224,369 | 17,192,091 | 16,230,668 | 16,377,636 |
| Changes in operating assets and liabilities: | | | | |
| (Increase) decrease in other assets | (158,394) | 55,726 | (71,388) | 51,520 |
| Decrease (increase) in trade and other receivables | 64,534 | 828,011 | (1,170,061) | 713,784 |
| (Increase) in inventories | (702,845) | (1,488,940) | (539,535) | (198,013) |
| Increase (decrease) in trade and other payables | 156,691 | 5,702,895 | 256,930 | 3,682,499 |
| | **16,584,355** | **22,289,783** | **14,706,614** | **20,627,426** |
| Interest paid | (1,300,319) | (709,264) | (941,277) | (566,535) |
| Income tax paid | (1,856,361) | (1,668,359) | (1,856,361) | (1,668,359) |
| **Net cash from operating activities** | **13,427,675** | **19,912,160** | **11,908,976** | **18,392,532** |
| **INVESTING ACTIVITIES** | | | | |
| Purchase of property, plant and equipment and intangible assets | (19,477,927) | (15,457,309) | (17,686,656) | (14,406,987) |
| Proceeds on disposal of property, plant and equipment | 813,191 | 207,366 | 733,777 | 207,366 |
| Proceeds on disposal of emission rights | 1,307,748 | - | 1,307,748 | - |
| Interest received | 480 | 507,037 | 480 | 507,004 |
| Acquisition of subsidiary | - | (1,890,129) | - | (1,905,000) |
| Repayment of loans granted | 9,468 | 164,534 | 9,468 | 164,534 |
| Proceeds from long-term receivables | - | 2,460,246 | - | 2,460,246 |
| **Net cash (used in) investing activities** | **(17,347,040)** | **(14,008,255)** | **(15,635,183)** | **(12,972,837)** |

*(continued)*

## CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2006

*(continued)*

| | The Group | | The Company | |
|---|---|---|---|---|
| **FINANCING ACTIVITIES** | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** |
| Dividends paid | (2,000,000) | (2,000,000) | (2,000,000) | (2,000,000) |
| Repayments of borrowings | (2,273,617) | (2,771,534) | (1,450,176) | (2,216,925) |
| Proceeds from borrowings | 12,915,158 | 4,177,844 | 11,823,433 | 3,266,950 |
| Repayment of long-term payables | - | (2,460,246) | - | (2,460,246) |
| Repayments of finance lease liabilities | (4,818,294) | (3,642,234) | (4,326,857) | (3,328,042) |
| **Net cash from (used in) financing activities** | **3,823,247** | **(6,696,170)** | **4,046,400** | **(6,738,263)** |
| **Net (decrease)/increase in cash** | **(96,118)** | **(792,265)** | **320,193** | **(1,318,568)** |
| **CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR** | **667,557** | **1,459,822** | **141,254** | **1,459,822** |
| **CASH AND CASH EQUIVALENTS END OF THE YEAR** | **571,439** | **667,557** | **461,447** | **141,254** |

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

The financial statements were approved by the management on 24 March 2007 and signed on its behalf by:

| | |
|---|---|
| Gintautas Pangonis<br>General Director | Nina Šilerienė<br>Chief Accountant |

## 1. GENERAL INFORMATION

AB Grigiškės (the Company) was established in 1823. Former state owned company AB Grigiškės was privatized on 3 December 1991 and registered as a joint stock company on 2 April 1992. The Company's shares are traded on the Lithuanian National Stock Exchange.

As of 31 December 2006 and 2005 the Group consisted of the Company and its wholly owned (100%) subsidiary UAB Baltwood. The Company's and its subsidiaries the addresses of their registered office and the principal activities are as follow:

| Name | Country | Main address | Principal activity |
|---|---|---|---|
| AB Grigiškės | Lithuania | Vilniaus str. 10, 27101 Vilnius – Grigiškės | Fiberboard, corrugated cardboard and paper articles produce |
| UAB Baltwood | Lithuania | Vilniaus str. 10, 27101 Vilnius – Grigiškės | Wood processing |
| UAB Grigiškių transporto centras | Lithuania | Vilniaus str. 10, 27101 Vilnius – Grigiškės | Resale of used vehicles |

The financial statements of UAB Grigiškių transporto centras were not consolidated due to the fact that this Company is insignificant to the parent company.

As of 31 December 2006 in the Group and in the Company employed 890 and 795 people respectively (2005: 933 and 835 people respectively).

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

**Year 2006**

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

a) Standards, amendments and interpretations effective in 2006, but not relevant to the Company's and the Group's accounting policies

The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Group's accounting policies:

- IAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 (Amendment), The Fair Value Option (effective for annual periods beginning on or after 1 January 2006);
- IAS 21 (Amendment), Net Investments in a Foreign Operation (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective for annual periods beginning on or after 1 January 2006);
- IFRS 6, Exploration for and evaluation of mineral resources (effective for annual periods beginning on or after 1 January 2006);
- IFRIC 4, Determining Whether an Arrangement Contains a Lease (effective for annual periods beginning on or after 1 January 2006);
- IFRIC 5, Rights To Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective for annual periods beginning on or after 1 January 2006); and
- IFRIC 6, Liabilities arising from participating in a specific market – waste electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005).

b) Standards, amendments and interpretations that are issued but not yet not effective and have not been early adopted by the Company and the Group

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

- IAS 1 (Amendment), Capital disclosures (effective for annual periods beginning on or after 1 January 2007);
- IFRS 7, Financial Instruments: Disclosure (supersedes IAS 30) (effective for annual periods beginning on or after 1 January 2007);
- IFRS 8, Operating segments (effective for annual periods beginning on or after 1 January 2009) (not yet endorsed by the EU);

- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006) (not yet endorsed by the EU);
- IFRIC 11, IFRS 2, Group Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007) (not yet endorsed by the EU); and
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008) (not yet endorsed by the EU).

The management of the Company and the Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statement of the Company and the Group.

**Year 2005**

In 2005, the Group and the Company has adopted all of the new and revised Standards that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's and the Company's accounting policies in the following areas that have affected the amounts reported for the 2005 or prior years:

- goodwill (IFRS 3);
- excess of acquirer‘s interest in the net fair value of acquiree‘s identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as negative goodwill) (IFRS 3).

**IFRS 3, Business combinations**

Goodwill

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004. The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations. The Group had no acquisitions during the 2004 accounting period. Therefore, the first transaction to which the new Standard has been applied is the acquisition of 50% shares in UAB Baltwood on 20 June 2005.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 Impairment of Assets (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortisation of goodwill. Previously, under IAS 22, the Group carried goodwill in its balance sheet at cost less accumulated amortisation and accumulated impairment losses. Amortisation was charged over the estimated useful life of the goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 5 years.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after 31 March 2004, i.e. 1 January 2005, to goodwill acquired in business combinations for which the agreement date was before 31 March 2004. Therefore, from 1 January 2005, the Group has discontinued amortising such goodwill and has tested the goodwill for impairment in accordance with IAS 36. At 1 January 2005, the carrying amount of amortisation accumulated before that date of 24 LTL has been eliminated, with a corresponding decrease in goodwill.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

No amortisation has been charged in 2005. The charge in 2004 was LTL 24. An impairment loss of LTL 453 has been recognised in the current period in accordance with IAS 36.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)

IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognised immediately in profit or loss. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Previously, under IAS 22 (superceded by IFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from 1 January 2005. Therefore, the change has had no impact on amounts reported for 2004 or prior periods.

The carrying amount of negative goodwill at 1 January 2005 has been derecognised at the effective date of the change in accounting policy. Therefore, an adjustment is made to opening equity, increasing retained earnings and decreasing negative goodwill at 1 January 2005 by LTL 2,135,276.

Under the previous accounting policy, 66,902 LTL of negative goodwill would have been released to income during 2005, leaving a balance of negative goodwill of LTL 2,068,374 at 31 December 2005. Therefore, the impact of the change in accounting policy in 2005 is a reduction in other operating income of LTL 66,902 and an increase in net assets at 31 December 2005 of LTL 2,068,374.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union (the "EU"). IFRSs as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Company and the Group has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Company's and the Group's financial statements had they been endorsed by the EU at the balance sheet date. Therefore, as a matter of reference, the term "IFRS" is hereafter used and referring to both IFRS and IFRS as adopted by the EU.

The financial statements have been prepared on the historical cost basis, as modified by the indexation of certain fixed assets. The principal accounting policies are set out below.

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

***Change in accounting policy***
From 1 January 2006 the Company and the Group has changed its method of accounting for the emission rights as the new policy is considered to be more appropriate for the fair presentation of the Company's and the Group's financial position and operating performance. Under the new when the Group and the Company has sufficient allowances to meet its obligations, the net approach is applied, the amount of the provision is equal to the costs of the assets and neither the asset nor the provision is presented on the balance sheet. In case the Company is 'short' of allowances, the liability is recognised on the balance sheet being the best estimate of the expenditure (economic resources) required to settle the emission obligation. Until 1 January 2006 emission rights after initial recognition recorded as intangible assets re-measured at fair value by reference to an active market. Re-measurements related to not used emission rights are recognised directly in a separate component of equity. The revaluation results of obligations related to used emission rights (upon settlement or sale) are recognised in the income statement. As discussed in Note 29, the comparative 2005 financial information was restated as a result of this change in accounting policy.

***Principles of consolidation***
The consolidated financial statements incorporate the financial statements of AB Grigiškės and entity controlled by the Company (its subsidiary). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

***Business combinations***
Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business combinations are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

***Investments in subsidiaries***
A subsidiary is a company over which the parent has control. Investments in subsidiaries are stated at cost less impairment losses recognized, where the investment's carrying amount in the parent only financial statements exceeds its estimated recoverable amount.

***Investments in associates***
An associate is an entity over which the Company and the Group 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 in the parent only financial statements are stated at cost less impairment losses recognized, where the investment's carrying amount exceeds its estimated recoverable amount.

The results and assets and liabilities of associates are incorporated in the Group's consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where the Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

***Property, plant and equipment***
Property, plant and equipment are stated at historical cost as adjusted for the indexation of certain property, plant and equipment, less accumulated depreciation and any accumulated impairment losses.

Construction-in-progress represents property, plant and equipment under construction. Such assets are carried at acquisition cost, less any recognized impairment losses. Cost includes design, construction works, plant and equipment being mounted and other directly attributable costs.

Depreciation of property, plant and equipment, other than construction-in-progress, is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Estimated useful lives of Property, plant and equipment are as follows:

| | |
|---|---|
| Buildings and constructions | 4 – 91 years |
| Machinery and equipment | 2 – 50 years |
| Vehicles | 3 – 20 years |
| Other equipment and other fixed assets | 2 – 20 years |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The Company capitalizes the assets according to the capitalization values set for certain groups of assets:

| | |
|---|---|
| Buildings and constructions | 1,000 LTL |
| Machinery and equipment | 3,000 LTL |
| Vehicles | 1,000 LTL |
| Other equipment and other fixed assets, except computer equipment | 1,000 LTL |
| Computer equipment | 300 LTL |

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

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Company and Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. 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 acquisition cost less subsequent accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line method to write off the cost of each asset over the estimated useful life as follows:

| | |
|---|---|
| Land lease rights | 90 years |
| Licenses, patents and etc. | 2 – 3 years |
| Software | 1 – 5 years |
| Other intangible assets | 2 – 4 years |

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

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

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

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

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

Member States must ensure that by 30 April of the following year at the latest, that the operator of each installation surrenders a number of allowances equal to the total emissions from that installation during the preceding calendar year. Thus, installations will surrender allowances for the first time by 30 April 2006 equal to their emissions during the 2005 calendar year.

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

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

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

***Financial assets***
Financial assets are recognised on the Company's and the Group's balance sheet when the Company and the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method less impairment loss recognized to reflect irrecoverable amounts.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognized in profit or loss by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

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

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

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

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

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

*Other financial liabilities*
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

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

***Grants***
Grants are accounted for on an accrual basis of accounting, i.e. grants are credited to income statement in the periods when related expenses, which they are intended to compensate, incur.

*Grants related to assets*
Grants related to assets include asset acquisition financing and non-monetary grants. Initially such grants are recorded at the fair value of the corresponding assets and subsequently credited to income statement over the useful lives of related non-current assets offset with depreciation expenses of the corresponding assets.

*Grants related to income*
Grants related to income are received as a reimbursement for the expenses already incurred and as a compensation for unearned revenue, and also all other grants than those related to assets. Grants are recognized when they are received or there is a reasonable assurance that they will be received.

***Lease***
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 and the Group as lessor*
Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

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

Rentals payable under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

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

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

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

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

Interest income is recognized on an accrual basis, by reference to the principal outstanding and at the effective interest rate applicable.

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

The applicable rates used for the principal currencies as of 31 December were as follows:

| 2006 | | 2005 | |
|---|---|---|---|
| 1 USD | = 2.6304 LTL | 1 USD | = 2.9102 LTL |
| 1 EUR | = 3.4528 LTL | 1 EUR | = 3.4528 LTL |
| 1 GBP | = 5.1468 LTL | 1 GBR | = 5.0141 LTL |
| 10 PLN | = 8.9888 LTL | 10 PLN | = 8.9608 LTL |

***Finance costs***
All finance costs are recognized in profit or loss when incurred.

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

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

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

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

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

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 Company and the Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred income tax for the period*
Current and deferred income tax is charged or credited to profit or loss, except when they relate to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

***Financial risk management***
The principal financial risk management policies of the Group and the Company are set out below:

Credit risk
The credit risk of the Group and of the Company is rather limited because the main buyers are reliable customers. The Group has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

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

Interest rate risk
The Group's and the Company's loans consist of loans with floating interest ratio, which is related with LIBOR (EURIBOR, VILIBOR). The Company did not use any financial instruments in order to control the risk of interest ratio changes.

Foreign currencies exchange risk
The Group and the Company have a policy to synchronize the cash flows from expected sales in the future with the expected purchases and other expenses in each foreign currency. At the moment the Company doesn't use any derivative financial instruments in order to control foreign currencies exchange risk.

Liquidity risk
In order to maintain a sufficient amount of cash and control over the liquidity risk, the Group and the Company makes monthly and annual cash flows forecasts.

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

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

***Subsequent events***
Post balance sheet events that provide additional information about the Company's and the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

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

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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.

## 5. PROPERTY, PLANT AND EQUIPMENT

At 31 December property, plant and equipment consisted of the following:

| The Group | Buildings and constructions LTL | Machinery and Equipment LTL | Vehicles LTL | Other assets LTL | Construction in progress and prepayments LTL | Total LTL |
|---|---|---|---|---|---|---|
| **Modified cost** | | | | | | |
| 1 January 2005 | 30,164,560 | 56,310,531 | 4,202,681 | 2,201,550 | 4,520,195 | 97,399,517 |
| Acquired on acquisition of a subsidiary | 1,906,137 | 9,407,812 | 573,574 | 72,380 | 4,733 | 11,964,636 |
| Additions | 31,184 | 1,707,250 | 1,348,621 | 283,621 | 18,287,231 | 21,657,907 |
| Disposals | (16,544) | (1,157,256) | (356,815) | (204,268) | (1,448,670) | (3,183,553) |
| Transfers | 94,588 | 9,995,007 | 19,724 | 268,716 | (10,378,035) | - |
| 31 December 2005 | 32,179,925 | 76,263,344 | 5,787,785 | 2,621,999 | 10,985,454 | 127,838,507 |
| Comprising: | | | | | | |
| At cost | 4,042,112 | 50,967,919 | 5,163,500 | 2,269,574 | 10,985,454 | 73,428,559 |
| At modified cost | 28,137,813 | 25,295,425 | 624,285 | 352,425 | - | 54,409,948 |
| 31 December 2005 | 32,179,925 | 76,263,344 | 5,787,785 | 2,621,999 | 10,985,454 | 127,838,507 |
| 1 January 2006 | 32,179,925 | 76,263,344 | 5,787,785 | 2,621,999 | 10,985,454 | 127,838,507 |
| Additions | 934,555 | 1,645,442 | 581,549 | 244,659 | 20,781,840 | 24,188,045 |
| Disposals | (133,662) | (2,494,015) | (234,477) | (109,109) | - | (2,971,263) |
| Transfers | 2,717,506 | 6,866,961 | - | 33,404 | (9,617,871) | - |
| 31 December 2006 | 35,698,324 | 82,281,732 | 6,134,857 | 2,790,953 | 22,149,423 | 149,055,289 |
| Comprising: | | | | | | |
| At cost | 6,759,615 | 57,886,939 | 5,547,286 | 2,496,027 | 22,149,423 | 94,839,290 |
| At modified cost | 28,938,709 | 24,394,793 | 587,571 | 294,926 | - | 54,215,999 |
| 31 December 2006 | 35,698,324 | 82,281,732 | 6,134,857 | 2,790,953 | 22,149,423 | 149,055,289 |
| **Accumulated depreciation and impairment** | | | | | | |
| 1 January 2005 | 12,496,118 | 30,486,408 | 1,984,869 | 1,505,463 | 1,448,670 | 47,921,528 |
| Acquired on acquisition of a subsidiary | 81,040 | 429,242 | 192,251 | 27,887 | - | 730,420 |
| Depreciation | 740,043 | 5,142,261 | 593,985 | 297,628 | - | 6,773,917 |
| Impairment loss/ (reversal) | - | (7,955) | - | (23,508) | - | (31,463) |
| Disposals | (16,535) | (1,113,887) | (275,915) | (194,386) | (1,448,670) | (3,049,393) |
| Transfers | - | (14,789) | 14,789 | - | - | - |
| 31 December 2005 | 13,300,666 | 34,921,280 | 2,509,979 | 1,613,084 | - | 52,345,009 |
| 1 January 2006 | 13,300,666 | 34,921,280 | 2,509,979 | 1,613,084 | - | 52,345,009 |
| Depreciation | 755,805 | 8,014,242 | 865,270 | 377,538 | - | 10,012,855 |
| Impairment loss/ (reversal) | 34,376 | (341,518) | 39,335 | - | - | (267,807) |
| Disposals | (94,093) | (1,870,234) | (165,902) | (95,770) | - | (2,225,999) |
| 31 December 2006 | 13,996,754 | 40,723,770 | 3,248,682 | 1,894,852 | - | 59,864,058 |
| **Carrying amount** | | | | | | |
| **31 December 2005** | **18,879,259** | **41,342,064** | **3,277,806** | **1,008,915** | **10,985,454** | **75,493,498** |
| **31 December 2006** | **21,701,570** | **41,557,962** | **2,886,175** | **896,101** | **22,149,423** | **89,191,231** |

All of the Group's property, plant and equipment are held for its own use.

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

As of 31 December 2006 the part of Group's property, plant and equipment with carrying amount of LTL 17,457,366 (31 December 2005: LTL 17,834,511) is pledged as security for loan granted by banks (Note 16).

*(continued)*

*(continued)*

As of 31 December 2006 the Group's property, plant and equipment having a carrying amount of LTL 15,099,674 (31 December 2005: LTL 13,386,662) were acquired under finance lease.

As of 31 December 2006 the impairment loss of the Group's property, plant and equipment amounts to LTL 652,801 (31 December 2005: LTL 920,608).

As of 31 December 2006 the acquisition cost of the fully depreciated property, plant and equipment (constructions, equipment and other assets) still in use of the Group was LTL 16,357,396 (31 December 2005: LTL 15,348,326).

As of 31 December 2006 the Group's property, plant and equipment, include assets with a net book value of LTL 21,707,110 (31 December 2005: LTL 22,432,871) which are accounted for using historical cost as adjusted for indexation, using indexation rates set by the Lithuanian Government less subsequent depreciation and impairment loss.

As of 31 December 2006 the Group's construction in progress includes non completed projects. The main projects consisted of the following:

| **Project** | **Carrying amount LTL** | **Estimated expenses of completion LTL** | **Estimated date of completion** |
|---|---|---|---|
| Papermaking line | 18,453,672 | 550,000 | May,2007 |
| Expansion of paper alteration building | 1,422,472 | 1,050,000 | June, 2007 |
| Plywood production line | 1,876,727 | 162,000 | February, 2007 |
| **Total** | **21,752,871** | **1,762,000** | |

Plywood production line of the subsidiary was taken in to use in February 2007.

*(continued)*

*(continued)*

| The Company | Buildings and constru-ctions LTL | Machinery and Equipment LTL | Vehicles LTL | Other assets LTL | Construction in progress and prepayments LTL | Total LTL |
|---|---|---|---|---|---|---|
| **Modified cost** | | | | | | |
| 1 January 2005 | 30,164,560 | 56,310,531 | 4,202,681 | 2,201,550 | 4,520,195 | 97,399,517 |
| Additions | 12,467 | 1,722,556 | 828,374 | 249,807 | 18,286,248 | 21,099,452 |
| Disposals | (16,544) | (1,157,256) | (356,815) | (204,268) | (1,448,670) | (3,183,553) |
| Transfers | 94,588 | 9,995,007 | 19,724 | 268,716 | (10,378,035) | - |
| 31 December 2005 | 30,255,071 | 66,870,838 | 4,693,964 | 2,515,805 | 10,979,738 | 115,315,416 |
| Comprising: | | | | | | |
| At cost | 2,117,258 | 41,575,413 | 4,069,679 | 2,163,380 | 10,979,738 | 60,905,468 |
| At modified cost | 28,137,813 | 25,295,425 | 624,285 | 352,425 | - | 54,409,948 |
| 31 December 2005 | 30,255,071 | 66,870,838 | 4,693,964 | 2,515,805 | 10,979,738 | 115,315,416 |
| 1 January 2006 | 30,255,071 | 66,870,838 | 4,693,964 | 2,515,805 | 10,979,738 | 115,315,416 |
| Additions | 934,555 | 950,263 | 458,426 | 238,958 | 18,910,829 | 21,493,031 |
| Disposals | (133,662) | (2,395,575) | (234,477) | (109,109) | - | (2,872,823) |
| Transfers | 2,717,506 | 6,866,961 | - | 33,404 | (9,617,871) | - |
| **31 December 2006** | 33,773,470 | 72,292,487 | 4,917,913 | 2,679,058 | 20,272,696 | 133,935,624 |
| Comprising: | | | | | | |
| At cost | 4,834,761 | 47,897,694 | 4,330,342 | 2,384,132 | 20,272,696 | 79,719,625 |
| At modified cost | 28,938,709 | 24,394,793 | 587,571 | 294,926 | - | 54,215,999 |
| **31 December 2006** | 33,773,470 | 72,292,487 | 4,917,913 | 2,679,058 | 20,272,696 | 133,935,624 |
| **Accumulated depreciation and impairment** | | | | | | |
| 1 January 2005 | 12,496,118 | 30,486,408 | 1,984,869 | 1,505,463 | 1,448,670 | 47,921,528 |
| Depreciation | 713,965 | 4,672,444 | 504,911 | 279,118 | - | 6,170,438 |
| Impairment loss/ (reversal) | - | (7,955) | - | (23,508) | - | (31,463) |
| Disposals | (16,535) | (1,113,887) | (275,915) | (194,386) | (1,448,670) | (3,049,393) |
| Transfers | - | (14,789) | 14,789 | - | - | - |
| 31 December 2005 | 13,193,548 | 34,022,221 | 2,228,654 | 1,566,687 | - | 51,011,110 |
| 1 January 2006 | 13,193,548 | 34,022,221 | 2,228,654 | 1,566,687 | - | 51,011,110 |
| Depreciation | 704,051 | 7,035,589 | 642,050 | 351,232 | - | 8,732,922 |
| Impairment loss/ (reversal) | 34,376 | (341,518) | 39,335 | - | - | (267,807) |
| Disposals | (94,093) | (1,851,208) | (165,902) | (95,770) | - | (2,206,973) |
| **31 December 2006** | 13,837,882 | 38,865,084 | 2,744,137 | 1,822,149 | - | 57,269,252 |
| **Carrying amount** | | | | | | |
| **31 December 2005** | **17,061,523** | **32,848,617** | **2,465,310** | **949,118** | **10,979,738** | **64,304,306** |
| **31 December 2006** | **19,935,588** | **33,427,403** | **2,173,776** | **856,909** | **20,272,696** | **76,666,372** |

All of the Company's property, plant and equipment are held for its own use.

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

As of 31 December 2006 the part of Company's property, plant and equipment with carrying amount of LTL 8,438,290 (31 December 2005: LTL 8,075,710) is pledged as security for loan granted by bank (Note 16).

As of 31 December 2006 the property, plant and equipment having a carrying amount of LTL 13,293,443 (31 December 2005: LTL 12,174,541) were acquired under finance lease.

As of 31 December 2006 the impairment loss of assets amounts to LTL 652,801 (31 December 2005: LTL 920,608).

As of 31 December 2006 the acquisition cost of the fully depreciated property, plant and equipment (constructions, equipment and other assets) still in use of the Company was LTL 16,341,942 (31 December 2005: LTL 15,348,326).

*(continued)*

*(continued)*

As of 31 December 2006 the Company's property, plant and equipment, include assets with a net book value of LTL 21,707,110 (31 December 2005: LTL 22,432,871) which are accounted for using historical cost as adjusted for indexation, using indexation rates set by the Lithuanian Government less subsequent depreciation and impairment loss.

As of 31 December 2006 the Company's construction in progress includes non completed projects. The main projects consisted of the following:

| **Project** | **Carrying amount LTL** | **Estimated expenses of completion LTL** | **Estimated date of completion** |
|---|---|---|---|
| Papermaking line | 18,453,672 | 550,000 | May,2007 |
| Expansion of paper alteration building | 1,422,472 | 1,050,000 | June, 2007 |
| **Total** | **19,876,144** | **1,600,000** | |

*(concluded)*

## 6. INTANGIBLE ASSETS

At 31 December intangible assets consisted of the following:

| **The Group** | **Land lease rights LTL** | **Licenses, patents LTL** | **Software LTL** | **Other assets and prepayments LTL** | **Total LTL** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 1 January 2005 | - | 53,583 | 470,957 | 35,102 | 559,642 |
| Acquired on acquisition of a subsidiary | 2,400,000 | - | 14,252 | 5,288 | 2,419,540 |
| Additions | - | 2,254 | 27,706 | - | 29,960 |
| Disposals | - | - | (7,098) | (472) | (7,570) |
| Transfers | - | 7,134 | - | (7,134) | - |
| 31 December 2005 | 2,400,000 | 62,971 | 505,817 | 32,784 | 3,001,572 |
| 1 January 2006 | 2,400,000 | 62,971 | 505,817 | 32,784 | 3,001,572 |
| Additions | - | - | 239,455 | 3,836 | 243,291 |
| Disposals | - | (21,882) | (45,052) | (16,000) | (82,934) |
| **31 December 2006** | 2,400,000 | 41,089 | 700,220 | 20,620 | 3,161,929 |
| **Accumulated amortisation** | | | | | |
| 1 January 2005 | - | 24,475 | 231,297 | 23,329 | 279,101 |
| Acquired on acquisition of a subsidiary | 48,889 | - | 7,215 | 2,937 | 59,041 |
| Amortisation | 13,333 | 13,581 | 99,967 | 3,305 | 130,186 |
| Disposals | - | - | (7,098) | (472) | (7,570) |
| 31 December 2005 | 62,222 | 38,056 | 331,381 | 29,099 | 460,758 |
| 1 January 2006 | 62,222 | 38,056 | 331,381 | 29,099 | 460,758 |
| Amortisation | 26,667 | 13,606 | 120,770 | 3,029 | 164,072 |
| Disposals | - | (21,860) | (45,049) | (15,999) | (82,908) |
| **31 December 2006** | 88,889 | 29,802 | 407,102 | 16,129 | 541,922 |
| **Carrying amount** | | | | | |
| **31 December 2005** | **2,337,778** | **24,915** | **174,436** | **3,685** | **2,540,814** |
| **31 December 2006** | **2,311,111** | **11,287** | **293,118** | **4,491** | **2,620,007** |

Amortization expense has been included in administrative expenses.

As of 31 December 2006 the acquisition cost of the fully depreciated intangible assets still in use of the Group was LTL 97,726 (31 December 2005: LTL 104,588).

*(continued)*

*(continued)*

As of 31 December 2006 the Group's land lease rights with carrying amount of LTL 2,311,111 (31 December 2005: LTL 2,337,778) are pledged as security for loan granted by bank (Note 16).

| **The Company** | **Licenses and patents LTL** | **Software LTL** | **Other assets LTL** | **Prepayments LTL** | **Total LTL** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 1 January 2005 | 53,583 | 470,957 | 27,968 | 7,134 | 559,642 |
| Additions | 2,254 | 27,285 | - | - | 29,539 |
| Disposals | - | (7,098) | (472) | - | (7,570) |
| Transfers | 7,134 | - | - | (7,134) | - |
| 31 December 2005 | 62,971 | 491,144 | 27,496 | - | 581,611 |
| 1 January 2006 | 62,971 | 491,144 | 27,496 | - | 581,611 |
| Additions | - | 239,455 | - | 3,836 | 243,291 |
| Disposals | (21,882) | (45,052) | (16,000) | - | (82,934) |
| **31 December 2006** | **41,089** | **685,547** | **11,496** | **3,836** | **741,968** |
| **Accumulated amortisation** | | | | | |
| 1 January 2005 | 24,475 | 231,297 | 23,329 | - | 279,101 |
| Amortisation | 13,581 | 97,398 | 2,424 | - | 113,403 |
| Disposals | - | (7,098) | (472) | - | (7,570) |
| 31 December 2005 | 38,056 | 321,597 | 25,281 | - | 384,934 |
| 1 January 2006 | 38,056 | 321,597 | 25,281 | - | 384,934 |
| Amortisation | 13,606 | 116,660 | 1,561 | - | 131,827 |
| Disposals | (21,860) | (45,049) | (15,999) | - | (82,908) |
| **31 December 2006** | **29,802** | **393,208** | **10,843** | **-** | **433,853** |
| **Carrying amount** | | | | | |
| **31 December 2005** | **24,915** | **169,547** | **2,215** | **-** | **196,677** |
| **31 December 2006** | **11,287** | **292,339** | **653** | **3,836** | **308,115** |

Amortization expense has been included in administrative expenses.

As of 31 December 2006 the acquisition cost of the fully depreciated intangible assets still in use of the Company was LTL 84,348 (31 December 2005: LTL 104,588).

*(concluded)*

## 7. GOODWILL AND NEGATIVE GOODWILL

At 31 December goodwill and negative goodwill consisted of the following:

| The Group | Goodwill LTL | Negative goodwill LTL | Total LTL |
|---|---|---|---|
| **Cost** | | | |
| 1 January 2005 | 477 | (2,230,053) | (2,229,576) |
| Elimination of amortisation accumulated prior to the adoption of IFRS 3 (Note 2) | (24) | 94,777 | 94,753 |
| Impairment loss | (453) | - | (453) |
| Derecognition of previously recognised negative goodwill (Note 2) | - | 2,135,276 | 2,135,276 |
| **31 December 2005** | **-** | **-** | **-** |
| **31 December 2006** | **-** | **-** | **-** |
| **Accumulated amortisation** | | | |
| 1 January 2005 | (24) | 94,777 | 94,753 |
| Elimination of amortisation accumulated prior to the adoption of IFRS 3 (Note 2) | 24 | (94,777) | (94,753) |
| **31 December 2005** | **-** | **-** | **-** |
| **31 December 2006** | **-** | **-** | **-** |
| **Carrying amount** | | | |
| **31 December 2005** | **-** | **-** | **-** |
| **31 December 2006** | **-** | **-** | **-** |

## 8. INVESTMENTS IN ASSOCIATES

| | The Group 01.01.2005 - 30.06.2005 LTL |
|---|---|
| Balance at 1 January 2005 | 743,648 |
| Goodwill impairment loss (Note 7) | (453) |
| Derecognition of previously recognised negative goodwill (Note 7) | 2,135,276 |
| Share of loss of associates | (463,994) |
| **Total** | **2,414,477** |

As of 30 June 2005 UAB Baltwood proportion of ownership interest and voting power held was 50%.

*(continued)*

*(continued)*

As of 30 June 2005 summarised financial information in respect of the Group's associates is set out below:

| | 30.06.2005 LTL |
|---|---|
| Total assets | 15,469,783 |
| Total liabilities | (10,640,830) |
| Net assets | 4,828,953 |
| **Group's share of associates' net assets** | **2,414,477** |

| | 01.01.2005-30.06.2005 LTL |
|---|---|
| Sales | 5,305,376 |
| Net loss | (927,987) |
| **Group's share of associates' loss for the period** | **463,994** |

On 20 June 2005 the Group acquired 50% UAB Baltwood shares (Note 26) and as of that date the Group obtained full control (100%) over the subsidiary.

The movement in investment balance during the year ended 31 December 2005 was as follows:

| | The Company 2005 LTL |
|---|---|
| Balance at 31 December | 1,710,000 |
| Transfer to investment in subsidiary (note 9) | (1,710,000) |
| **Balance at 31 December 2005** | **-** |

*(concluded)*

## 9. INVESTMENTS IN SUBSIDIARIES

At 31 December investments in subsidiaries consisted of the following:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| **Subsidiary** | **LTL** | **% of owner-ship** | **LTL** | **% of owner-ship** |
| UAB Baltwood | 5,005,000 | 100 | 5,005,000 | 100 |
| UAB Grigiškių transporto centras | - | 100 | - | 100 |
| **Total** | **5,005,000** | | **5,005,000** | |

The movement in investment balance during the year ended 31 December was as follows:

| | 2006 LTL | 2005 LTL |
|---|---|---|
| Balance at 1 January | 5,005,000 | 35,072 |
| Acquisition of subsidiary | - | 1,395,000 |
| Increase of share capital of subsidiary: | | |
| -in cash | - | 510,000 |
| -loan capitalised | - | 250,000 |
| -trade accounts receivable capitalised | - | 1,140,000 |
| Transfers from investment in associate (Note 8) | - | 1,710,000 |
| Impairment loss | - | (35,072) |
| **Balance at 31 December** | **5,005,000** | **5,005,000** |

Further details about the subsidiaries are given in the Notes 1 and 26.

## 10. LOANS GRANTED

As of 31 December loans granted consisted of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** |
| Loan receivable from UAB Grigiškių transporto centras, denominated in LTL, maturity date – 31 December 2005, interest free | 74,853 | 119,958 | 74,853 | 119,958 |
| Loan receivable from employee denominated in LTL, maturity date – 31 December 2007, interest free | 9,677 | 19,354 | 9,677 | 19,354 |
| | **84,530** | **139,312** | **84,530** | **139,312** |
| Less: loans granted after one year | - | (9,677) | - | (9,677) |
| Less: Allowance for doubtful amounts receivable | (74,853) | (110,490) | (74,853) | (110,490) |
| **Total loans granted within one year** | **9,677** | **19,145** | **9,677** | **19,145** |

The movement for the year in the allowance for doubtful amounts receivable consisted of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** |
| **At 1 January** | **110,490** | **-** | **110,490** | **-** |
| Increase of allowance | - | 110,490 | - | 110,490 |
| Reversal of allowance | (35,637) | - | (35,637) | - |
| **At 31 December** | **74,853** | **110,490** | **74,853** | **110,490** |

## 11. TRADE AND OTHER RECEIVABLES

At 31 December trade and other receivables consisted of the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** |
| Trade receivables | 16,746,847 | 15,276,611 | 17,965,183 | 15,396,867 |
| Other receivables | 1,167,671 | 1,671,064 | 899,530 | 1,266,408 |
| | **17,914,518** | **16,947,675** | **18,864,713** | **16,663,275** |
| Less: Allowance for doubtful amounts receivable | (996,984) | (1,083,193) | (969,986) | (1,056,195) |
| **Total amounts receivable within one year** | **16,917,534** | **15,864,482** | **17,894,727** | **15,607,080** |

The carrying amount of the Group and Company trade and other receivables approximates their fair value.

*(continued)*

The movement for the year in the allowance for doubtful amounts receivable consisted of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| **At 1 January** | **1,083,193** | **2,164,860** | **1,056,195** | **2,164,860** |
| Increase of allowance | 33,622 | 103,020 | 33,622 | 76,022 |
| Reversal of allowance | (119,831) | (1,184,687) | (119,831) | (1,184,687) |
| **At 31 December** | **996,984** | **1,083,193** | **969,986** | **1,056,195** |

*(concluded)*

## 12. CASH AND CASH EQUIVALENTS

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Cash at bank | 544,174 | 625,150 | 456,971 | 102,885 |
| Cash on hand | 27,265 | 42,407 | 4,476 | 38,369 |
| **Total** | **571,439** | **667,557** | **461,447** | **141,254** |

As of 31 December 2006 cash at AB SEB Vilniaus bankas account and future cash inflows of LTL'000 3,000 into this account were pledged to secure the credit facilities granted by bank. As of 31 December 2006 the Group's and the Company's cash balances in the pledged account amounted to LTL 201,462 (Note 16).

## 13. INVENTORIES

As of 31 December inventories consisted of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Materials | 4,414,596 | 4,354,639 | 4,204,918 | 4,128,558 |
| Work in progress | 3,809,001 | 3,714,284 | 2,042,924 | 1,846,162 |
| Finished goods | 3,374,661 | 3,010,504 | 3,044,044 | 2,732,755 |
| Goods in transit | 126,635 | 227,919 | 126,635 | 171,511 |
| | **11,724,893** | **11,307,346** | **9,418,521** | **8,878,986** |
| Less: write-down to net realizable value | (30,375) | (131,158) | (30,375) | (131,158) |
| **Total** | **11,694,518** | **11,176,188** | **9,388,146** | **8,747,828** |

At 31 December 2006 the cost of inventories has been reduced to net realisable value by LTL 30,375 (at of 31 December 2005: LTL 131,158). The reversal of write-down of inventories to net realizable value is recognised in administrative expenses.

As of 31 December 2006 the Group's and Company's inventory with carrying amounts of LTL 5,833,634 and LTL 833,634 are pledged as security for loan granted by bank (as of 31 December 2005 – LTL 833,634 and LTL 0) (Note 16).

## 14. SHARE CAPITAL AND LEGAL RESERVE

As of 31 December 2006 and 2005 the issued share capital consisted of LTL 39,956,657 ordinary shares at a par value of LTL 1 each. As of 31 December 2006 and 2005 all shares were fully paid.

As of 31 December shareholders of the Company were as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Number of shares** | **Proportion of ownership, %** | **Number of shares** | **Proportion of ownership, %** |
| Lithuanian legal entities | 21,707,954 | 54.33 | 22,831,421 | 57.14 |
| Lithuanian individuals | 12,326,087 | 30.85 | 11,281,935 | 28.24 |
| Foreign legal entities | 5,868,967 | 14.69 | 5,767,828 | 14.43 |
| Foreign individuals | 53,649 | 0.13 | 75,473 | 0.19 |
| **Total** | **39,956,657** | **100.00** | **39,956,657** | **100.00** |

Main shareholders:

| | **Number of shares** | **Proportion of ownership, %** | **Number of shares** | **Proportion of ownership, %** |
|---|---|---|---|---|
| UAB Ginvildos investicija | 18,895,104 | 47.29 | 18,895,104 | 47.29 |
| Rosemount Holdings LLC | 3,554,319 | 8.90 | 3,554,319 | 8.90 |
| Mišeikis Dailius Juozapas | 2,146,745 | 5.37 | 2,041,245 | 5.11 |
| **Total** | **24,596,168** | **61.56** | **24,490,668** | **61.30** |

The Company has one class of ordinary shares which carry no right to fixed income.

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

## 15. GRANTS

The movement of grants for the year ended 31 December 2006 consisted of the following

| | **Grant related to assets LTL** | **Grant related to expenses LTL** | **Total LTL** |
|---|---|---|---|
| **At 1 January 2006** | **-** | **-** | **-** |
| Received during the year | 341,401 | 82,656 | 424,057 |
| Used during the year | - | (82,656) | (82,656) |
| **At 31 December 2006** | **341,401** | **-** | **341,401** |

## 16. BORROWINGS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| The borrowings are repayable as follows: | | | | |
| Within one year | 12,192,272 | 7,969,201 | 5,404,963 | 1,450,176 |
| In the second year | 3,285,804 | 2,175,264 | 3,285,804 | 2,175,264 |
| In the third to fifth years inclusive | 7,124,704 | 1,816,774 | 7,124,704 | 1,816,774 |
| | **22,602,780** | **11,961,239** | **15,815,471** | **5,442,214** |
| Less: amount due for settlement within one year* | 12,192,272 | 7,969,201 | 5,404,963 | 1,450,176 |
| **Amount due for settlement after one year** | **10,410,508** | **3,992,038** | **10,410,508** | **3,992,038** |
| Analysis of borrowings by currency: | | | | |
| LTL | 9,976,455 | 2,749,496 | 7,476,959 | - |
| EUR | 12,626,325 | 9,211,743 | 8,338,512 | 5,442,214 |
| **Total** | **22,602,780** | **11,961,239** | **15,815,471** | **5,442,214** |

**THE GROUP**
* - according to the loan agreement with AB SEB Vilniaus Bankas, UAB Baltwood (the subsidiary) is required to comply with certain covenants. The subsidiary is in default with certain covenants noted in the loan agreement with AB SEB Vilniaus bankas for the year ended 31 December 2006. Due to the default of the covenants the loan from AB SEB Vilniaus bankas is accounted for as current liabilities as loan on demand. In case AB SEB Vilniaus bankas will not claim the loan to be repaid fully within 12 months, the future loan repayments after the year 2006 would be as follows:

| | LTL |
|---|---|
| 2007 | 948,208 |
| 2008 | 948,208 |
| 2009 | 948,208 |
| 2010 | 948,208 |
| 2011 | 494,981 |
| **Total** | **4,287,813** |

Compliance with loan covenants based on the UAB Baltwood financial statements for the year ended 31 December 2006, are illustrated below:

| | Required | Actual |
|---|---|---|
| Sales, LTL | >18,000,000 | 13,421,331 |
| EBITDA, LTL | >2,500,000 | 704,515 |
| EBITDA to outstanding loans and interest | <3.8 | 9.63 |

Compliance with loan covenants based on the UAB Baltwood financial statements for the year ended 31 December 2005, are illustrated below:

| | Required | Actual before reclassification of long term loan | Actual after reclassification of long term loan |
|---|---|---|---|
| Current liquidity | >1.00 | 0.65 | 0.45 |
| Debt to equity | <2.33 | 1.68 | 1.68 |
| EBITDA to outstanding loans and interest | >1.40 | 0.04 | 0.04 |

The borrowings have been secured by pledging certain property, plant and equipment and intangible assets, cash and (Note 5, 6, 12 and 13).

According to management, the fair value of the Group's and of the Company's borrowings at 31 December 2006 approximated LTL 22,239,404 and LTL 15,534,673 respectively (2005: LTL 11,711,856 and LTL 5,255,526 respectively).

The fair value of borrowings is estimated by discounting the expected future cash flows using the current market rates at which similar borrowings would be made to borrowers with similar credit ratings and for the same remaining maturities.

*(continued)*

*(continued)*

**THE GROUP**
As of 31 December 2006 borrowings of LTL 22,602,780 were arranged at floating interest rates, which are of approximately 4.7%.

As of 31 December 2005 borrowings of LTL 11,711,239 were arranged at floating interest rates, which are of approximately 3.65% and of LTL 250,000 – interest free.

**THE COMPANY**
As of 31 December 2006 borrowings of LTL 15,815,471 were arranged at floating interest rates, which are of approximately 4.63%.

As of 31 December 2005 borrowings of LTL 5,442,214 were arranged at floating interest rates, which are of approximately 3.18%.

*(concluded)*

## 17. FINANCE LEASE LIABILITIES

| The Group | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Amounts payable under finance leases: | | | | |
| Within one year | 3,888,027 | 3,376,818 | 3,488,955 | 3,041,214 |
| In the second to fifth years inclusive | 6,799,576 | 6,499,688 | 6,371,542 | 6,107,292 |
| Total | 10,687,603 | 9,876,506 | 9,860,497 | 9,148,506 |
| Less: future finance charges | (827,106) | (728,000) | - | - |
| **Present value of lease liabilities** | **9,860,497** | **9,148,506** | **9,860,497** | **9,148,506** |
| Value added tax | 1,774,890 | 1,646,731 | 1,774,890 | 1,646,731 |
| **Total** | **11,635,387** | **10,795,237** | **11,635,387** | **10,795,237** |
| Less: amounts payable within one year | 4,116,967 | 3,588,633 | 4,116,967 | 3,588,633 |
| **Amounts payable within one year** | **7,518,420** | **7,206,604** | **7,518,420** | **7,206,604** |

| The Company | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Amounts payable under finance leases: | | | | |
| Within one year | 3,509,043 | 3,102,495 | 3,163,078 | 2,792,588 |
| In the second to fifth years inclusive | 5,919,999 | 5,923,349 | 5,557,732 | 5,565,643 |
| Total | 9,429,042 | 9,025,844 | 8,720,810 | 8,358,231 |
| Less: future finance charges | (708,232) | (667,613) | - | - |
| **Present value of lease liabilities** | **8,720,810** | **8,358,231** | **8,720,810** | **8,358,231** |
| Value added tax | 1,569,746 | 1,504,481 | 1,569,746 | 1,504,481 |
| **Total** | **10,290,556** | **9,862,712** | **10,290,556** | **9,862,712** |
| Less: amounts payable within one year | 3,732,432 | 3,295,254 | 3,732,432 | 3,295,254 |
| **Amounts payable within one year** | **6,558,124** | **6,567,458** | **6,558,124** | **6,567,458** |

The fair value of the Group's and Company's lease liabilities approximates their carrying amount.

The Group's and the Company's obligations under finance leases are secured by the lessor's charge over the leased assets (Note 5).

## 18. TRADE AND OTHER PAYABLES

At 31 December trade and other payables consisted of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Trade payables | 13,899,646 | 14,293,446 | 12,030,834 | 13,096,698 |
| Taxes, salaries and social insurance payable | 3,321,351 | 1,931,207 | 3,190,238 | 1,860,290 |
| Advances paid | 178,275 | 109,072 | 158,931 | 80,330 |
| Accrued charges | 77,609 | 80,934 | 77,609 | 80,934 |
| Other payables | 656,044 | 760,102 | 625,436 | 609,204 |
| **Total** | **18,132,925** | **17,174,761** | **16,083,048** | **15,727,456** |

## 19. BUSINESS AND GEOGRAPHICAL SEGMENTS

### THE GROUP

#### Business segments

A business segment is a distinguishable component of an entity that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

For management purposes, the Group is currently organized into tree operating divisions – paper, fiber and wood processing. These divisions are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented below.

| **2006** | **Paper LTL** | **Fiber LTL** | **Wood processing LTL** | **Unallocated LTL** | **Total LTL** |
|---|---|---|---|---|---|
| Sales | 51,398,308 | 51,238,083 | 12,664,437 | 4,688,449 | 119,989,277 |
| Cost of sales | (37,905,723) | (42,866,453) | (11,043,797) | (3,331,640) | (95,147,613) |
| **Gross profit** | **13,492,585** | **8,371,630** | **1,620,640** | **1,356,809** | **24,841,664** |
| Depreciation and amortisation | 3,784,616 | 2,926,510 | 1,312,179 | 2,153,622 | 10,176,927 |
| Segment tangible and intangible assets | 34,231,561 | 14,834,620 | 14,835,752 | 31,613,746 | 95,515,679 |
| Segment tangible and intangible assets additions | 13,212,156 | 2,457,629 | 2,695,012 | 9,700,494 | 28,065,291 |

| **2005** | **Paper LTL** | **Fiber LTL** | **Wood processing LTL** | **Unallocated LTL** | **Total LTL** |
|---|---|---|---|---|---|
| Sales | 45,751,142 | 49,314,863 | 4,805,585 | 4,884,779 | 104,756,369 |
| Cost of sales | (32,971,858) | (38,854,691) | (3,737,507) | (3,115,642) | (78,679,698) |
| **Gross profit** | **12,779,284** | **10,460,172** | **1,068,078** | **1,769,137** | **26,076,671** |
| Depreciation and amortisation | 3,026,318 | 1,306,890 | 620,262 | 1,950,633 | 6,904,103 |
| Segment tangible and intangible assets | 25,298,557 | 15,416,104 | 13,533,329 | 25,708,453 | 79,956,443 |
| Segment tangible and intangible assets additions | 10,510,485 | 8,964,416 | 558,876 | 3,576,221 | 23,609,998 |

*(continued)*

*(continued)*

**Geographical segments**

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

The Group's reportable geographic segments for the year ended 31 December are as follows:

| Sales by geographical segments | 2006 | 2005 |
|---|---|---|
| Domestic market | 71,651,384 | 63,148,057 |
| Export | | |
| Poland | 11,518,682 | 7,389,826 |
| Latvia | 7,749,348 | 6,043,264 |
| Sweden | 5,973,768 | 7,978,796 |
| Denmark | 4,969,906 | 2,155,174 |
| Estonia | 4,404,166 | 3,930,596 |
| Netherlands | 2,842,141 | 4,472,793 |
| JAV | 2,832,688 | 2,634,363 |
| Czech | 1,442,036 | 961,716 |
| Great Britain | 1,364,700 | 2,313,933 |
| Belarus | 646,858 | 623,477 |
| Hungary | 570,804 | 1,638,745 |
| Italy | 491,812 | - |
| Germany | 284,376 | 309,024 |
| Other countries | 3,246,608 | 1,156,605 |
| | 48,337,893 | 41,608,312 |
| **TOTAL** | **119,989,277** | **104,756,369** |

**THE COMPANY**

**Business segments**

For management purposes, the Company is currently organized into two operating divisions – paper and fiber. These divisions are the basis on which the Company reports its primary segment information. Segment information about these businesses is presented below.

| | Paper | | Fiber | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** |
| Sales | 51,398,308 | 45,751,142 | 51,238,083 | 49,314,863 | 7,482,891 | 6,248,099 | 110,119,282 | 101,314,104 |
| Cost of sales | (37,905,723) | (32,971,858) | (42,866,453) | (38,854,691) | (6,152,654) | (4,478,962) | (86,924,830) | (76,305,511) |
| **Gross profit** | **13,492,585** | **12,779,284** | **8,371,630** | **10,460,172** | **1,330,237** | **1,769,137** | **23,194,452** | **25,008,593** |
| Depreciation and amortisation | 3,784,616 | 3,026,318 | 2,926,510 | 1,306,890 | 2,153,623 | 1,950,633 | 8,864,749 | 6,283,841 |
| Segment tangible and intangible assets | 34,230,563 | 25,298,557 | 14,834,620 | 15,416,104 | 31,613,745 | 25,708,453 | 80,678,928 | 66,423,114 |
| Segment tangible and intangible assets additions | 13,212,155 | 10,510,485 | 2,457,629 | 8,964,416 | 9,774,876 | 3,576,221 | 25,444,660 | 23,051,122 |

*(continued)*

*(continued)*

**Geographical segments**

The Company's reportable geographic segments for the year ended 31 December are as follows:

| 2006 | Paper | | Fiber | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Domestic LTL | Export LTL | Domestic LTL | Export LTL | Domestic LTL | Export LTL | Domestic LTL | Export LTL |
| Sales | 28,879,609 | 22,518,699 | 31,025,726 | 20,212,357 | 7,464,995 | 17,896 | 67,370,330 | 42,748,952 |
| Cost of sales | (20,183,006) | (17,722,717) | (26,794,374) | (16,072,079) | (6,141,852) | (10,802) | (53,119,232) | (33,805,598) |
| **Gross profit** | **8,696,603** | **4,795,982** | **4,231,352** | **4,140,278** | **1,323,143** | **7,094** | **14,251,098** | **8,943,354** |

| 2005 | Paper | | Fiber | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Domestic LTL | Export LTL | Domestic LTL | Export LTL | Domestic LTL | Export LTL | Domestic LTL | Export LTL |
| Sales | 28,651,752 | 17,099,390 | 26,404,601 | 22,910,262 | 6,232,134 | 15,965 | 61,288,487 | 40,025,617 |
| Cost of sales | (19,562,495) | (13,409,363) | (20,944,395) | (17,910,296) | (4,475,215) | (3,747) | (44,982,105) | (31,323,406) |
| **Gross profit** | **9,089,257** | **3,690,027** | **5,460,206** | **4,999,966** | **1,756,919** | **12,218** | **16,306,382** | **8,702,211** |

All of the Group's and Company's assets are located in the Republic of Lithuania.

*(concluded)*

## 20. OTHER OPERATING INCOME

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Gain from sold emission rights | 1,307,748 | - | 1,307,748 | - |
| Compensation received for Naujieji Verkiai sewerage pumping station and pressure line building transfer to Vilnius national water supply company | - | 2,144,032 | - | 2,144,032 |
| Rent income | 477,779 | 172,548 | 498,608 | 212,016 |
| Income from sale of scrap | 342,800 | 75,414 | 342,800 | 75,414 |
| Gain from disposal of fixed assets | 133,018 | 92,598 | 133,018 | 91,985 |
| Insurance compensation | 37,319 | 5,863 | 37,319 | 5,863 |
| Write off of accounts payables | 6,030 | 3,324 | 6,030 | 3,324 |
| Other income | 85,534 | 233,672 | 140,644 | 233,672 |
| **Total** | **2,390,228** | **2,727,451** | **2,466,167** | **2,766,306** |

## 21. OTHER OPERATING EXPENSES

For the year ended 31 December other operating expenses consisted of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Rent expenses | 26,798 | 15,035 | 26,798 | 15,035 |
| Other expenses | 161,427 | 66,412 | 161,427 | 66,412 |
| **Total** | **188,225** | **81,447** | **188,225** | **81,447** |

## 22. SELLING AND DISTRIBUTION EXPENSES

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Transportation expenses | 5,234,911 | 4,851,607 | 4,475,151 | 4,483,884 |
| Salaries and related taxes | 1,618,285 | 1,239,082 | 1,481,005 | 1,239,082 |
| Repairs and maintenance | 445,224 | 447,369 | 426,661 | 447,369 |
| Mediatory, market research and marketing expenses | 388,347 | 388,261 | 360,791 | 383,799 |
| Advertisement expenses | 356,718 | 796,040 | 356,718 | 796,040 |
| Own transport expenses | 246,775 | 160,900 | 241,696 | 160,900 |
| Representation expenses | 98,516 | 57,340 | 98,516 | 57,340 |
| New products development expenses | 77,131 | 51,878 | 77,131 | 51,878 |
| Depreciation | 74,636 | 59,802 | 66,756 | 59,802 |
| Business trip expenses | 68,383 | 49,770 | 68,383 | 49,770 |
| Communication expenses | 54,829 | 65,473 | 54,829 | 65,473 |
| Harbor services expenses | 36,531 | 49,272 | 36,531 | 49,272 |
| Other selling expenses | 221,130 | 195,971 | 205,169 | 193,784 |
| **Total** | **8,921,416** | **8,412,765** | **7,949,337** | **8,038,393** |

## 23. ADMINISTRATIVE EXPENSES

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

| | The Group | | Company | |
|---|---|---|---|---|
| | 2006 LTL | 2005 LTL | 2006 LTL | 2005 LTL |
| Salaries and related expenses | 3,482,485 | 2,959,474 | 3,040,647 | 2,718,354 |
| Consulting expenses | 886,990 | 1,716,730 | 886,990 | 1,716,730 |
| Taxes | 766,033 | 902,876 | 641,375 | 855,218 |
| Vacation reserve | 509,322 | 186,081 | 509,322 | 186,081 |
| Repairs and maintenance | 500,665 | 1,590,451 | 471,023 | 1,565,847 |
| Security expenses | 411,540 | 426,142 | 411,540 | 444,142 |
| Transport expenses | 402,809 | 350,035 | 402,809 | 328,087 |
| Expenses under social program | 345,338 | 203,287 | 345,338 | 203,287 |
| Depreciation and amortisation | 288,762 | 265,972 | 236,943 | 242,491 |
| Write off of inventory | 285,695 | 34,650 | - | 31,604 |
| Insurance expenses | 280,299 | 267,072 | 248,034 | 267,072 |
| Redundancy pay and related taxes | 258,179 | 289,978 | 258,179 | 289,978 |
| Bank fees expenses | 168,297 | 207,966 | 134,059 | 184,498 |
| Employees training expenses | 138,012 | 27,657 | 138,012 | 30,225 |
| Recoverable training expenses | (82,656) | - | (82,656) | - |
| Professional services | 128,073 | 100,974 | 81,551 | 75,950 |
| Business trip expenses | 102,457 | 115,115 | 94,909 | 114,605 |
| Communication expenses | 98,746 | 99,950 | 75,769 | 86,971 |
| Advertisement and representation expenses | 82,963 | 58,227 | 82,963 | 58,227 |
| Write off of bad debts | 80,631 | 38,961 | 80,631 | 38,961 |
| Write off of property, plant and equipment | 43,044 | 21,694 | 43,044 | 21,694 |
| Restitution in case of disablement | 32,507 | 25,719 | 32,507 | 25,719 |
| Membership and admission fee expenses | 14,187 | 16,781 | 14,187 | 16,781 |
| Property, plant and equipment impairment losses (reversal) | (267,807) | (31,464) | (267,807) | (31,464) |
| Allowance (reversal) for doubtful accounts receivables | (121,846) | (1,025,173) | (121,846) | (998,175) |
| Allowance (reversal) for slow moving inventory | (100,783) | 43,614 | (100,783) | 43,614 |
| Impairment of investments in subsidiary | - | 35,072 | - | 35,072 |
| Other administrative expenses | 806,725 | 105,355 | 691,580 | 26,202 |
| **Total** | **9,540,667** | **9,033,196** | **8,348,320** | **8,577,771** |

## 24. INCOME TAX

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

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 LTL | % | 2005 LTL | % | 2006 LTL | % | 2005 LTL | % |
| Profit before income tax | 7,165,466 | | 11,657,516 | | 8,132,172 | | 11,049,707 | |
| Tax at the statutory income taxes rate of 19% (2005 - 5%) | 1,361,439 | 19 | 1,748,627 | 15 | 1,545,113 | 19 | 1,657,456 | 15 |
| Tax effect of items that are not taxable in determining taxable profit | (38,402) | - | (213,403) | (2) | (38,402) | - | (58,608) | (1) |
| Tax effect of items that are not deductible in determining taxable profit | 236,825 | 4 | 385,682 | 4 | 176,181 | 2 | 321,344 | 3 |
| Correction of the last year income tax | 95,864 | 1 | - | - | 95,864 | 1 | - | - |
| Increase in deferred tax due to change in income tax rate (2006 – 19%, 2007 – 18%) | 26,923 | - | 23,097 | - | 1,194 | - | 25,511 | - |
| Increase (decrease) in deferred tax asset valuation allowance | 96,709 | 1 | (315,188) | (3) | 4,474 | - | (314,888) | (3) |
| **Income tax expense** | **1,779,358** | **25** | **1,628,815** | **14** | **1,784,424** | **22** | **1,630,815** | **14** |

| | The Group 2006 LTL | The Group 2005 LTL | The Company 2006 LTL | The Company 2005 LTL |
|---|---|---|---|---|
| The components of income tax expense are as follows: | | | | |
| Current income tax expense | 1,760,497 | 1,668,359 | 1,760,497 | 1,668,359 |
| Correction of the last year income tax | 95,864 | - | 95,864 | - |
| Deferred income tax benefit | (77,003) | (39,544) | (71,937) | (37,544) |
| **Income tax expense** | **1,779,358** | **1,628,815** | **1,784,424** | **1,630,815** |

*(continued)*

*(continued)*

The components of deferred tax assets and liabilities are summarized as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 LTL** | **2005 LTL** | **2006 LTL** | **2005 LTL** |
| **Deferred tax assets:** | | | | |
| Tax loss carried forward | 511,888 | 416,560 | - | - |
| Provisions and write offs | 263,552 | 336,818 | 259,202 | 332,768 |
| Accruals | 320,016 | 241,089 | 303,078 | 225,038 |
| Total deferred tax assets | 1,095,456 | 994,467 | 562,280 | 557,806 |
| **Deferred tax liabilities:** | | | | |
| Depreciation | (945,536) | (994,828) | (598,069) | (644,161) |
| Total deferred tax liabilities | (945,536) | (994,828) | (598,069) | (644,161) |
| Increase in deferred tax liabilities due to change in income tax rate (2006 – 19%, 2007 – 18%) | - | (23,097) | - | (25,511) |
| **Total deferred tax assets/(liabilities), net** | **149,920** | **(23,458)** | **(35,789)** | **(111,866)** |
| Less: valuation allowance | (1,095,456) | (998,747) | (562,280) | (557,806) |
| **Total deferred tax (liability)** | **(945,536)** | **(1,022,205)** | **(598,069)** | **(669,672)** |

Lithuanian income tax law allows carrying forward tax losses of prior periods for deduction against future periods tax profits for not more than five years after the origin of the tax loss.

Maturity of tax loss carried forward is as follows:

| **Maturity** | **Tax loss carried forward (LTL)** |
|---|---|
| 2008 | 42,121 |
| 2009 | 258,030 |
| 2010 | 116,409 |
| 2011 | 95,328 |
| **Total** | **511,888** |

*(concluded)*

### 25. EARNINGS PER SHARE

| | The Group | | The company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Net profit for the current year, LTL | 5,386,108 | 10,028,701 | 6,347,748 | 9,418,892 |
| Average number of ordinary shares | 39,956,657 | 39,956,657 | 39,956,657 | 39,956,657 |
| **Earnings per share** | **0.13** | **0.25** | **0.16** | **0.24** |

The Company had no dilutive options outstanding during 2006 and 2005 or at 31 December 2006 and 2005.

## 26. ACQUISTION OF SUBSIDIARY

On 20 June 2005, the Company acquired 50% of the issued share capital of UAB Baltwood for cash consideration of LTL 1,395,000. This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction, and the resulting goodwill, are as follows:

| | Acquiree's carrying amount before combination LTL | Fair value adjustments LTL | Fair value LTL |
|---|---|---|---|
| **UAB Baltwood net assets acquired:** | | | |
| Intangible assets | 2,360,499 | - | 2,360,499 |
| Property, plant and equipment | 11,234,216 | - | 11,234,216 |
| Inventories | 1,163,446 | - | 1,163,446 |
| Trade receivables and other receivables | 696,751 | - | 696,751 |
| Cash and cash equivalents | 14,871 | - | 14,871 |
| Long term debt | (3,853,455) | - | (3,853,455) |
| Deferred tax liability | (354,533) | - | (354,533) |
| Trade and other payables | (2,593,490) | - | (2,593,490) |
| Short term debts | (3,695,244) | - | (3,695,244) |
| Other liabilities | (144,108) | - | (144,108) |
| | **4,828,953** | **-** | **4,828,953** |
| Group's share (50%) of net assets | | | 2,414,477 |
| Negative goodwill | | | 1,019,477 |
| Total consideration satisfied by cash (Note 9) | | | 1,395,000 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | | | 1,395,000 |
| Cash and cash equivalents acquired | | | (14,871) |
| | | | **(1,380,129)** |

The negative goodwill acquired in the business combinations were released to income in the income statement in 2005.

## 27. COMMITMENTS AND CONTINSENCIES

**Litigation and claims** – At 31 December 2006 and 2005 the Group and the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements.

Currently the Company is involved in solving a possible legal dispute with Felder Industrietechnik GmbH, Germany concerning proper execution of obligations according to 30 July 2004 purchase agreement No. 2.631.01. As of 31 March 2007 Felder Industrietechnik GmbH claims a total amount of EUR 679,824.14 from the Company. Accordingly, the Company requests form Felder Industrietechnik GmbH for a discontinuation of substantive breaches of the agreement and a proper execution of the agreement, i.e. to finish intended works, to supply agreed equipment and to launch a new production line. Taking into account the above mentioned agreement factual execution circumstances and further correspondents between the parties; at this stage it is not possible to predict the result of a potential litigation objectively.

## 28. RELATED PARTY TRANSACTIONS

**THE GROUP**

During 2006 the Group entered into the following transactions and had the following outstanding balances at 31 December 2006 with related parties:

| | Sale of goods and services LTL | Purchase of goods and services LTL | Amounts owed by related parties LTL | Amounts owed to related parties LTL |
|---|---|---|---|---|
| UAB Ginvildos investicija | - | 903,400 | - | 38,961 |
| UAB Didma | 123,539 | 1,182,010 | - | 240,576 |
| UAB Remada | 3,241 | - | 889 | - |
| UAB Grigiškių transporto centras | - | 3,500 | - | - |
| | **126,780** | **2,088,910** | **889** | **279,537** |

During 2005 the Group entered into the following transactions and had the following outstanding balances at 31 December 2005 with related parties:

| | Sale of goods and services LTL | Purchase of goods and services LTL | Amounts owed by related parties LTL | Amounts owed to related parties LTL |
|---|---|---|---|---|
| UAB Ginvildos investicija | - | 1,113,786 | - | 120,832 |
| Dansk Traembalage A/S | 2,413,082 | - | 13,480 | 250,000 |
| UAB Didma | 49,516 | 1,310,885 | - | 407,770 |
| UAB Remada | 2,560 | - | 408 | - |
| UAB Grigiškių transporto centras | 7,652 | 52,425 | 119,958 | - |
| | **2,472,810** | **2,477,096** | **133,846** | **778,602** |

UAB Grigiškių transporto centras – a not consolidated subsidiary of the Group. UAB Ginvildos Investicija is the main shareholder of AB Grigiškės. UAB Didma and UAB Remada are related to the Group management. Dansk Traembalage A/S was former shareholder of UAB Baltwood.

All transactions with related parties were concluded on an arm's length basis.

For the year ended 31 December the remuneration of the Group's management was as follows:

| | 2006 LTL | 2005 LTL |
|---|---|---|
| Remuneration to management | 1,289,276 | 1,039,571 |
| Average number of managers | 10 | 10 |

(continued)

(continued)

**THE COMPANY**

During 2006 the Company entered into the following transactions and had the following outstanding balances at 31 December 2006 with related parties:

| | Sale of goods and services LTL | Purchase of goods and services LTL | Amounts owed by related parties LTL | Amounts owed to related parties LTL |
|---|---|---|---|---|
| UAB Baltwood | 2,870,381 | 756,894 | 2,092,202 | - |
| UAB Ginvildos investicija | - | 903,400 | - | 38,961 |
| UAB Didma | 123,539 | 1,182,010 | - | 240,576 |
| UAB Remada | 3,241 | - | 889 | - |
| UAB Grigiškių transporto centras | - | 3,500 | - | - |
| | **2,997,161** | **2,845,804** | **2,093,091** | **279,537** |

During 2005 the Company entered into the following transactions and had the following outstanding balances at 31 December 2005 with related parties:

| | Sale of goods and services LTL | Purchase of goods and services LTL | Amounts owed by related parties LTL | Amounts owed to related parties LTL |
|---|---|---|---|---|
| UAB Baltwood | 2,075,624 | 1,311,918 | 1,406,975 | - |
| UAB Ginvildos investicija | - | 1,113,786 | - | 120,832 |
| UAB Didma | 49,516 | 1,310,885 | - | 407,770 |
| UAB Remada | 2,560 | - | 408 | - |
| UAB Grigiškių transporto centras | 7,652 | 52,425 | 119,958 | - |
| | **2,135,352** | **3,789,014** | **1,527,341** | **528,602** |

UAB Grigiškių transporto centras and UAB Baltwood are subsidiaries of the Group. UAB Ginvildos Investicija is the main shareholder of AB Grigiškės. UAB Didma and UAB Remada are related to the Group management.

All transactions with related parties were concluded on an arm's length basis.

For the year ended 31 December the remuneration of the Company's management was as follows:

| | 2006 LTL | 2005 LTL |
|---|---|---|
| Remuneration to management | 1,165,933 | 985,658 |
| Average number of managers | 9 | 9 |

(concluded)

## 29. RESTATEMENT OF THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

From 1 January 2006 the Company and the Group has changed its method of accounting for the emission rights as the new policy is considered to be more appropriate for the fair presentation of the Company's and the Group's financial position and operating performance. Under the new when the Group and the Company has sufficient allowances to meet its obligations, the net approach is applied, the amount of the provision is equal to the costs of the assets and neither the asset nor the provision is presented on the balance sheet. In case the Company is 'short' of allowances, the liability is recognised on the balance sheet being the best estimate of the expenditure (economic resources) required to settle the emission obligation. Until 1 January 2006 emission rights are after initial recognition the intangible assets is re-measured at fair value by reference to an active market. Re-measurements related to not used emission rights are recognised directly in a separate component of equity. The revaluation results of obligations related to used emission rights (upon settlement or sale) are recognised in the income statement.

The impact of the above discussed restatements to the financial statements lines is as follow:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **as restated LTL** | **as previously reported LTL** | **as restated LTL** | **as previously reported LTL** |
| **Balance sheet** | | | | |
| **At 31 December 2005** | | | | |
| Intangible asset | 2,540,814 | 7,386,064 | 196,677 | 5,041,927 |
| **Total asset** | **106,102,532** | **110,947,782** | **94,334,320** | **99,179,570** |
| Revaluation reserve for not used emission rights | - | 798,307 | - | 798,307 |
| **Total equity** | **64,410,998** | **65,209,305** | **62,632,266** | **63,430,573** |
| Grant | - | 524,937 | - | 524,937 |
| **Total non-current liabilities** | **12,220,847** | **12,745,784** | **11,229,168** | **11,754,105** |
| Provision for used emission rights | - | 3,522,006 | - | 3,522,006 |
| **Total current liabilities** | **29,470,687** | **32,992,693** | **20,472,886** | **23,994,892** |
| **Total equity and liabilities** | **106,102,532** | **110,947,782** | **94,334,320** | **99,179,570** |

## 30. SUBSEQUENT EVENTS

On January 2007 the Company received grant related to assets in the amount of LTL 341,401 and returned the bank loan of LTL 350,000 before the maturity date.

## 31. OFF-BALANCE SHEET ITEMS

Emission rights movement for the year ended 31 December 2006 and 2005 consisted of the following:

| The Group/The Company | Emission rights LTL | Received Government grant LTL | Provision for used emission rights LTL |
|---|---|---|---|
| Government grant received at fair value | 1,922,131 | 1,922,131 | - |
| Provision for used emission rights | - | (1,397,194) | 1,397,194 |
| **31 December 2005** | **1,922,131** | **524,937** | **1,397,194** |
| Government grant received at fair value | 3,633,956 | 3,633,956 | - |
| Sold | (434,550) | (434,550) | - |
| Provision for used emission rights settled after surrendering allowances to the appropriate authority | (1,417,096) | - | (1,417,096) |
| Provision for used emission rights | - | (3,289,906) | 3,289,906 |
| **31 December 2006** | **3,704,441** | **434,437** | **3,270,004** |

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

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

| PRINCIPLES/ RECOMMENDATIONS | YES/NO/NOT APPLICABLE | COMMENTARY |
|---|---|---|
| **Principle I: Basic Provisions**<br><br>**The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.** | | |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | Yes | The Company fully complies with this recommendation. Plans and forecasted results of the Company are published on an annual basis. |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes | All supreme managing bodies of the Company are focused on the implementation of the main objectives and tasks of the Company. |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Yes | The one-person managing body – the head of the Company, the collegial managing body – the management board and the supervisory body – the council of observers (supervisory board) cooperate in view of seeking the best benefit for the Company and its shareholders. |
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. | Yes | The Company fully complies with these recommendations. |
| **Principle II: The corporate governance framework**<br><br>**The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.** | | |
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | Yes | The Company fully complies with this recommendation, as its bodies consist of the single-person managing body (the head of the Company), the collegial managing body (the management board) and the supervisory body (the council of observers). |

| | | |
|---|---|---|
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. | Yes | The management board is responsible for strategic management of the Company and parries out other essential managerial functions in the Company. The council of observers (supervisory board) is responsible for the efficient supervision of the managing bodies of the Company. |
| 2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. | Not applicable | Both the council of observers (supervisory board) and the management board are formed in the Company. |
| 2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. | Yes | The collegial supervisory body, as elected by the general meeting of shareholders, is formed and operates in the procedure laid down in guidelines III and IV; guidelines III and IV also apply to the management board, insofar this does not contradict the essence and purpose of the mentioned body. |
| 2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. | Yes | The management board of the Company consists of 5 members. The council of observers (supervisory board) also consists of 5 members. This is set forth in the Articles of Association of the Company. The Articles of Association shall be approved by the supreme managing body of the Company, i.e., the general meeting of shareholders. |
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board. | Yes | In accordance with the Articles of Association of AB Grigiškės, the management board and the council of observers shall be elected by the general meeting of shareholders for the maximum period of 4 years. This is the maximum period permitted by the legislation of the Republic of Lithuania. The general meeting of shareholders is entitled to revoke all or individual members of the council of observers before expiration of their tenure. |
| 2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision. | Yes | The chairperson of the council of observers, as formed in the Company, has not been the head of the Company. |

| **Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting**<br><br>**The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.** | | |
|---|---|---|
| 3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. | Yes | The collegial body elected by the general meeting of shareholders is elected in compliance with the procedure prescribed by the legislation of the Republic of Lithuania and does not contradict it. Concurrently, the interests of small shareholders, disinterested and unbiased supervision of the managing bodies are ensured. |
| 3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. | Yes | Latest 10 days before the general meeting of shareholders the Company shall publish proposed draft resolutions. Where the election of the members to the collegial body is included in the agenda of the meeting, the Company shall disclose the foremost information about the nominees to the members.<br>Information about the members of the council of observers and the management board is disclosed by the Company in its periodical reports.<br>Accordingly, there is enough time for the shareholders to decide on which nominee they will vote. |
| 3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body. | Yes | The Company complies with the provisions laid down in this recommendation: before a member is appointed to the council of observers, the proposed candidate is announced and his/her suitability to hold this position is presented for the shareholders present at the nominating meeting. The shareholders are free to ask questions.<br>Every shareholder votes to express his/her opinion as to whether or not he/she is satisfied with the competence of the nominated member to the council of observers.<br>Information about the members to the council of observers is disclosed by the Company in its periodical reports. |
| 3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. | Yes | The members to the collegial body of the Company, as formed by the general meeting of shareholders, are elected taking into consideration the structure and types of activities of the Company; the members have versatile knowledge, opinions and experience necessary for the proper performance of their tasks. |
| 3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge. | Yes | New members elected to the collegial bodies of the Company are made familiar with the Company, its organization, activity specifics, etc. |

| | | |
|---|---|---|
| 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 | Independency of the members of the council of observers has not been evaluated in the Company so far; the Company has not discussed the contents of the concept of "sufficiency" of independent members. |
| 3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:<br><br>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;<br><br>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;<br><br>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);<br><br>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);<br><br>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or | Yes | According to the criteria laid down in paragraph 3.7, there is an independent member in the council of observers of the Company. |

| | | |
|---|---|---|
| service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;<br><br>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;<br><br>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;<br><br>8) He/she has not been in the position of a member of the collegial body for over than 12 years;<br><br>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. | | |
| 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. | No | The Company has not defined the concept of independency. |
| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | No | The Company has not applied so far the practice of evaluation and announcement of independency of the members of the council of observers. |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | No | The Company has not applied so far the practice of evaluation and announcement of independency of the members of the council of observers. |

| | | |
|---|---|---|
| 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. | No | Members of the collegial bodies are not remunerated for their work from the funds of the Company. |
| **Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting**<br><br>**The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.** | | |
| 4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. | Yes | The council of observers regularly makes recommendations to the managing bodies of the Company and monitors their activities. |
| 4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | Yes | To the best knowledge of the Company, all members of the council of observers act in a good will in respect of the Company, comply with the interests of the Company (not those of third parties) and take efforts to maintain independency in decision making. |
| 4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified. | Yes | Members of the collegial body properly perform the functions delegated to them: actively participate at the sitting of the collegial body and devote sufficient time for the performance of their duties as the members of the collegial body. |
| 4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders. | Yes | The collegial body treat all shareholders in a fair and unbiased manner. There have been no conflicts of interests so far. |

| | | |
|---|---|---|
| 4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision. | Yes | In accordance with the Articles of Association, transactions of the Company shall be considered and approved by the management board.<br><br>Support of the general meeting of shareholders is required for the following decisions:<br>• transfer, lease or mortgage of fixed assets the value thereof exceeds 1/20 of the Company's authorized capital, etc.<br>• acquisition of fixed assets the value thereof exceeds 1/20 of the Company's authorized capital. |
| 4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. | Yes | The collegial body is independent in making decision important for the activities and strategy of the Company. Also, there are no restrictions for the collegial body to receive information of the Company's employees. |
| 4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole. | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |

| | | |
|---|---|---|
| 4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence. | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |
| 4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |
| 4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion. | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |
| 4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities. | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |

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| 4.12. Nomination Committee.<br>4.12.1. Key functions of the nomination committee should be the following:<br><br>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;<br>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;<br>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;<br>• Properly consider issues related to succession planning;<br>• Review the policy of the management bodies for selection and appointment of senior management.<br><br>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. | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |
| 4.13. Remuneration Committee.<br>4.13.1. Key functions of the remuneration committee should be the following:<br>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;<br>• Assist the collegial body in overseeing how the | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |

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

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| a resignation of the audit company or auditor and make recommendations on required actions in such situations;<br>• Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;<br>• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.<br><br>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.<br><br>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.<br><br>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.<br><br>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.<br><br>4.14.6. The audit committee should examine | | |

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| whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.<br><br>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. | | |
| 4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. | No | Such practice has not been applied in the Company. |
| **Principle V: The working procedure of the company's collegial bodies**<br><br>**The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.** | | |
| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting. | Yes | The Company fully complies with these recommendations. |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month. | Yes | Sittings of the collegial bodies of the Company are held at such intervals as are necessary to ensure uninterrupted tackling of essential issues relating to the management of the Company. |

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| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution. | Yes | Members of the collegial bodies are notified on the sitting in advance (before three days) by sending them the agenda and materials of the sitting by e-mail, so that they'd have enough time to properly prepare for consideration of the issues to be addressed at the sitting and share in useful discussions leading to adoption of proper resolutions. |
| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed. | Yes | In order to coordinate operations of the collegial bodies of the Company and to ensure efficient decision-making process, chairpersons of the collegial supervisory and managing bodies of the Company agree upon the dates and agendas of future sittings, closely cooperate in tackling other issues relating to the management of the Company. |
| **Principle VI: The equitable treatment of shareholders and shareholder rights**<br><br>**The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.** | | |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | Yes | The authorized capital of the Company is comprised of 39.956.657 ordinary shares. The par value of one share is LTL 1. All shareholders of the Company enjoy equal rights. |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company fully complies with this recommendation. |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | Yes | Support of the general meeting of shareholders is required for transactions which criteria are defined in the Articles of Association of the Company and introduced to the shareholders in advance. |

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| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them. | Yes | Procedures of convocation and holding the general meetings of shareholders of AB Grigiškės create the shareholders equal opportunities to attend the meetings and do not violate their rights and interests. Notices of convocation of the general meeting are published in the *Lietuvos Rytas* daily, as it is stipulated in the Articles of Association of the Company. The place, date, time and agenda of the meeting shall be specified in the notice. In addition, information is also published on the website of the Company: www.grigiskes.lt. |
| 6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes | At least 10 days before the general meeting, the shareholders should be provided with the access to the Company's documents related to the agenda. This information is disclosed through the information disclosure system of the Vilnius Stock Exchange as well as on the website of the Company: www.grigiskes.lt.<br><br>Where requested by a shareholder in writing, the head of the Company shall hand all draft resolutions of the meeting to that shareholder against his/her signature or send the same by registered male within 3 days after receipt of the mentioned written request. |
| 6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | Shareholders of AB Grigiškės may exercise their right to attend the general meeting of shareholders personally or through a proxy, provided such a person is properly authorised or is a party to a voting right cession agreement made in the statutory procedure; also, the shareholders of the Company may vote by filling in common ballot-papers as it is stipulated in the Company Law. |
| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies. | No | The Company does not comply with the provisions of this recommendation, because there have been no such request on the part of the shareholders. |

**Principle VII: The avoidance of conflicts of interest and their disclosure**

**The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**

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| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes | The Company fully complies with these recommendations. |
| 7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting. | Yes | The Company fully complies with these recommendations. |
| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | Yes | The Company fully complies with these recommendations. |
| 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. | Yes | The Company fully complies with these recommendations. |

**Principle VIII: Company's remuneration policy**

**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**

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| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website. | No | Such practice has not been applied in the Company so far. |

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| 8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year. | No | Such practice has not been applied in the Company so far. |
| 8.3. Remuneration statement should leastwise include the following information:<br>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;<br>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;<br>• Sufficient information on the linkage between the remuneration and performance;<br>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;<br>• A description of the main characteristics of supplementary pension or early retirement schemes for directors. | No | Such practice has not been applied in the Company so far. |
| 8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies. | No | Such practice has not been applied in the Company so far. |
| 8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. | No | Such practice has not been applied in the Company so far. |
| 8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory. | No | Such practice has not been applied in the Company so far. |
| 8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.<br>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:<br>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance | No | Such practice has not been applied in the Company so far. |

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| fees fixed by the annual general shareholders meeting;<br>• The remuneration and advantages received from any undertaking belonging to the same group;<br>• The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;<br>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;<br>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;<br>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.<br>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:<br>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;<br>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;<br>• The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;<br>• All changes in the terms and conditions of existing share options occurring during the financial year.<br>8.7.3. The following supplementary pension schemes-related information should be disclosed:<br>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;<br>• 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.<br>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate. | | |
| 8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. | No | Such practice has not been applied in the Company so far. |

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| 8.9. The following issues should be subject to approval by the shareholders' annual general meeting:<br>• Grant of share-based schemes, including share options, to directors;<br>• Determination of maximum number of shares and main conditions of share granting;<br>• The term within which options can be exercised;<br>• The conditions for any subsequent change in the exercise of the options, if permissible by law;<br>• All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. | No | Such practice has not been applied in the Company so far. |
| 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 | Such practice has not been applied in the Company so far. |
| 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 | Such practice has not been applied in the Company so far. |
| 8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website. | No | Such practice has not been applied in the Company so far. |

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| **Principle IX: The role of stakeholders in corporate governance**<br><br>**The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.** | | |
| 9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. | Yes | The Company complies with all statutory requirements aimed at ensuring the rights of interest holders. |
| 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. | Yes | The Company complies with all statutory requirements aimed at ensuring the rights of interest holders. |
| 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | Yes | The Company complies with all statutory requirements aimed at ensuring the rights of interest holders. |
| **Principle X: Information disclosure and transparency**<br><br>**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.** | | |
| 10.1. The company should disclose information on:<br>• The financial and operating results of the company;<br>• Company objectives;<br>• Persons holding by the right of ownership or in control of a block of shares in the company;<br>• Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;<br>• Material foreseeable risk factors;<br>• Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br>• Material issues regarding employees and other stakeholders;<br>• Governance structures and strategy.<br><br>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. | Yes | The Company complies with this recommendation. |
| 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure | Yes | The Company complies with this recommendation. |

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| 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. | No | Such practice has not been applied in the Company so far. |
| 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure | Yes | The Company fully complies with this recommendation. |
| 10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions. | Yes | The Company publishes information through the information system of the Vilnius Stock Exchange in Lithuanian and English simultaneously, of possible. The Stock Exchange places the received information on its home page and trade system, thus ensuring simultaneous placement of information to all readers. In addition, the Company, if possible, publishes its information prior to or after trade sessions of the Vilnius Stock Exchange and provides information for all markets where securities of the Company are traded simultaneously. The Company does not publish in commentaries, interviews or otherwise any information likely to affect the price of its emitted securities until such information is announced through the information system of the Stock Exchange.<br><br>The mentioned information is also placed on the website of the Company: www.grigiskes.lt. |
| 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 | Essential events, press releases, activity reports and other information important for the shareholders are published on the website of the Company in Lithuanian and English. |
| 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 fully complies with this recommendation. |

| **Principle XI: The selection of the company's auditor**<br><br>**The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.** | | |
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| 11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | Yes | The Company complies with this recommendation, except for audited of interim financial statement. |
| 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. | Yes | An audit company is proposed to the general meeting of shareholders by the council of observers. |
| 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 rendered other services for the Company. |