

AB Grigiškės

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010,
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS,
AS ADOPTED BY THE EUROPEAN UNION,
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of AB Grigiškės

Report on the Financial Statements

We have audited the accompanying financial statements of AB Grigiškės, a public limited liability company registered in the Republic of Lithuania (hereinafter “the Company”), and the consolidated financial statements of AB Grigiškės and subsidiaries (hereinafter the Group), which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

Management's Responsibility for the Financial Statements

The Company's 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As further discussed in Note 2.1 to the accompanying financial statements, the Company and the Group applied the IFRS 1 “First-time Adoption of International Financial Reporting Standards” exemption for the valuation of certain buildings and structures at deemed cost, except that the date of transition has been established as the 31 December 2010, and not 1 January 2009 as would be required by IFRS 1. In accordance with resolutions of the Government of the Republic of Lithuania, the Company's buildings and structures have been revalued (applying indexation rates) prior to 1 January 1996, and consequently in the prior years' financial statements have not been stated at either historical cost or fair value (deemed cost), as required by IFRS. We are unable to determine the historical cost values or the fair values (as deemed cost) of non-current assets with a carrying value of LTL 13,050 thousand as of 1 January 2009 and a carrying value of LTL 11,742 thousand as of 31 December 2009 and the effect this would have on the Group's and the Company's equity as of 1 January 2009 and 31 December 2009 and the statement of comprehensive income for the years 2009 and 2010.


Qualified Opinion

In our opinion, except for the possible effect of the matter described in section "Basis for Qualified Opinion" above, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2010 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.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying consolidated Management Report for the year ended 31 December 2010 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335



Jonas Akelis
President
Auditor's licence
No. 000003



Asta Štreimikienė
Auditor's licence
No. 000382

The audit was completed on 11 April 2011.

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AB GRIGIŠKĖS, Company code: 110012450, Vilniaus Str. 10, Grigiškės, Vilnius Mun., Lithuania
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts are in LTL unless otherwise stated)

STATEMENTS OF FINANCIAL POSITION

	Notes	Group			Company		
		As at 31 December 2010	As at 31 December 2009 (Restated)	As at 31 December 2008 (Restated)	As at 31 December 2010	As at 31 December 2009 (Restated)	As at 31 December 2008 (Restated)
ASSETS							
Non-current assets							
Property, plant and equipment	6	165,998,075	93,109,976	104,095,502	96,644,280	84,286,223	93,977,574
Investment property	6, 8	4,949,000	-	-	4,949,000	-	-
Intangible assets	7	12,771,370	2,330,532	2,461,616	129,213	99,369	203,549
Non-current financial assets							
Investments into subsidiaries	1	-	-	-	5,358,923	5,015,000	5,005,000
Non-current receivables	9	61,847	53,091	-	13,347,028	43,091	-
Total non-current financial assets		61,847	53,091	-	18,705,951	5,058,091	5,005,000
Total non-current assets		183,780,292	95,493,599	106,557,118	120,428,444	89,443,683	99,186,123
Current assets							
Inventories	10	19,623,910	10,620,079	14,826,904	9,960,609	8,988,447	12,558,106
Accounts receivable	11	32,357,453	14,231,492	18,770,638	18,038,094	17,250,622	21,058,324
Prepaid income tax		-	22,975	-	-	22,975	-
Other assets		1,513,830	553,326	408,581	482,562	507,916	383,625
Cash and cash equivalents	12	1,378,635	461,601	130,028	361,192	158,581	113,472
Total current assets		54,873,828	25,889,473	34,136,151	28,842,457	26,928,541	34,113,527
TOTAL ASSETS		238,654,120	121,383,072	140,693,269	149,270,901	116,372,224	133,299,650


(cont'd on the next page)

STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Notes	Group		Company		
		As at 31 December 2010	As at 31 December 2009 (Restated)	As at 31 December 2008 (Restated)	As at 31 December 2009 (Restated)	As at 31 December 2008 (Restated)
EQUITY AND LIABILITIES						
Equity						
Share capital	13	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Legal reserve	13	4,145,934	3,995,665	3,995,665	4,145,934	3,995,665
Foreign currency translation reserve	13	(53,388)	-	-	-	-
Retained earnings		20,273,624	3,332,980	703,421	15,962,278	4,702,451
Equity attributable to equity holders of the parent		84,366,170	67,328,645	64,699,086	80,108,212	68,698,116
Non-controlling interests		2,822,509	-	-	-	-
Total equity		87,188,679	67,328,645	64,699,086	80,108,212	68,698,116
Liabilities						
Non-current liabilities						
Grants and subsidies	15	8,410,520	461,938	318,641	8,410,520	461,938
Non-current borrowings	16	63,098,888	11,964,440	15,397,963	11,147,580	11,964,440
Financial lease obligations	17	7,156,940	10,681,454	12,593,549	6,813,065	10,589,013
Deferred income tax liability	26	3,927,139	196,543	304,293	2,052,891	196,543
Non-current employee benefits	18	730,067	370,053	370,053	370,053	370,053
Total non-current liabilities		83,323,554	23,674,428	28,984,499	28,794,109	23,581,987
Current liabilities						
Current borrowings	16	22,724,791	10,187,027	21,845,976	11,789,141	5,179,527
Current portion of financial lease obligations	17	4,242,460	5,275,819	7,653,001	3,787,762	5,026,833
Income tax payable		120,376	-	-	3,572	-
Trade and other payables	19	41,054,260	14,917,153	17,510,707	24,788,105	13,885,761
Total current liabilities		68,141,887	30,379,999	47,009,684	40,368,580	24,092,121
TOTAL EQUITY AND LIABILITIES:		238,654,120	121,383,072	140,693,269	149,270,901	116,372,224

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

The financial statements were approved by the management on 11 April 2011 and signed on its behalf by:


Gintautas Pangonis
General Director


Nina Šilerienė
Finance Director

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2010	2009	2010	2009
Revenue	20	245,785,467	118,929,736	129,742,468	109,709,336
Cost of sales	20	(213,055,227)	(98,759,686)	(115,663,202)	(91,012,026)
Gross profit		32,730,240	20,170,050	14,079,266	18,697,310
Other operating income	21	4,545,526	2,527,642	4,330,109	2,629,615
Selling and distribution expenses	23	(10,756,558)	(8,249,000)	(9,025,765)	(7,719,074)
General and administrative expenses	24	(11,129,268)	(9,050,776)	(6,844,537)	(8,074,719)
Other operating expenses	22	(430,472)	(245,389)	(150,924)	(245,389)
Profit from operations		14,959,468	5,152,527	2,388,149	5,287,743
Finance income	25	3,857	5,465	121,508	2,984
Finance expenses	25	(6,309,187)	(1,986,894)	(902,256)	(1,743,796)
Profit before income tax		8,654,138	3,171,098	1,607,401	3,546,931
Income tax	26	(1,111,856)	(541,539)	(87,692)	(541,539)
NET PROFIT		7,542,282	2,629,559	1,519,709	3,005,392
Other comprehensive income					
Exchange differences on translation of foreign operations		(53,388)	-	-	-
Total comprehensive income for the year, net of tax		7,488,894	2,629,559	1,519,709	3,005,392
Profit attributable to:					
The shareholders of the Company		7,200,526	2,629,559	1,519,709	3,005,392
Non-controlling interests		341,756	-	-	-
Total comprehensive income attributable to:		7,542,282	2,629,559	1,519,709	3,005,392
attributable to:					
The shareholders of the Company		7,147,138	2,629,559	1,519,709	3,005,392
Non-controlling interests		341,756	-	-	-
		7,488,894	2,629,559	1,519,709	3,005,392
Basic and diluted earnings per share (LTL)	27	0.12	0.04		

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

The financial statements were approved by the management on 11 April 2011 and signed on its behalf by:



Gintautas Pagonis
General Director



Nina Šilerienė
Finance Director

STATEMENTS OF CHANGES IN EQUITY

Group

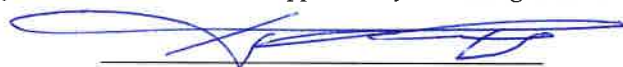
	Equity attributable to equity holders of the parent						Non-controlling interest	Total equity:
	Share capital	Legal reserve	Foreign currency translation reserve	Retained earnings	TOTAL:			
Balance as at 31 December 2008 (Restated) (Note 4)	60,000,000	3,995,665	-	703,421	64,699,086	-	64,699,086	
Net profit for the year	-	-	-	2,629,559	2,629,559	-	2,629,559	
Balance as at 31 December 2009 (Restated) (Note 4)	60,000,000	3,995,665	-	3,332,980	67,328,645	-	67,328,645	
Net profit for the year	-	-	-	7,200,526	7,200,526	341,756	7,542,282	
Other comprehensive income (expenses)	-	-	(53,388)	-	(53,388)	-	(53,388)	
Total comprehensive income (expense) for the year	-	-	(53,388)	7,200,526	7,147,138	341,756	7,488,894	
Transfer to legal reserve	-	150,269	-	(150,269)	-	-	-	
Impact of IFRS 1 adoption (Note 3)	-	-	-	11,090,387	11,090,387	-	11,090,387	
Dividends declared (Note 28)	-	-	-	(1,200,000)	(1,200,000)	-	(1,200,000)	
Acquisition of new subsidiaries (Note 7)	-	-	-	-	-	2,480,753	2,480,753	
Balance as at 31 December 2010	60,000,000	4,145,934	(53,388)	20,273,624	84,366,170	2,822,509	87,188,679	

Company

	Share capital	Legal reserve	Other reserves	Retained earnings	Total equity:
Balance as at 31 December 2008 (Restated) (Note 4)	60,000,000	3,995,665	-	1,697,059	65,692,724
Net profit for the year	-	-	-	3,005,392	3,005,392
Balance as at 31 December 2009 (Restated) (Note 4)	60,000,000	3,995,665	-	4,702,451	68,698,116
Transfer to legal reserve	-	150,269	-	(150,269)	-
Impact of IFRS 1 adoption (Note 3)	-	-	-	11,090,387	11,090,387
Dividends declared (Note 28)	-	-	-	(1,200,000)	(1,200,000)
Net profit for the year	-	-	-	1,519,709	1,519,709
Balance as at 31 December 2010	60,000,000	4,145,934	-	15,962,278	80,108,212

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

The financial statements were approved by the management on 11 April 2011 and signed on its behalf by:


Gintautas Pagonis
General Director


Nina Šilerienė
Finance Director

STATEMENTS OF CASH FLOWS

	Group		Company	
	2010	2009	2010	2009
Cash flows from (to) operating activities				
Profit before income tax	8,654,138	3,171,098	1,607,401	3,546,931
Adjustments for non-cash items:				
Depreciation and amortisation	20,761,399	16,752,458	13,833,463	15,281,716
Interest (income) expenses, net	2,883,565	1,921,115	740,110	1,703,223
Loss (gain) on disposal of property, plant and equipment	(38,945)	(16,333)	13,925	(16,333)
(Gain) on disposal of emission rights	(2,503,450)	(1,511,636)	(2,503,450)	(1,511,636)
Allowance (reversal) for slow moving inventory, write-off to net realizable value	(79,969)	425,569	(79,969)	425,569
Property, plant and equipment impairment losses (reversal)	-	(329,426)	-	(329,426)
Allowance for doubtful accounts receivable (reversal)	150,959	762,648	(1,691)	727,337
	29,827,697	21,175,493	13,609,789	19,827,381
Changes in working capital:				
(Increase) decrease in trade receivables and other receivables	(5,994,041)	4,445,600	(638,634)	3,747,987
(Increase) decrease in inventories	(4,028,409)	4,649,344	(892,193)	4,012,178
(Increase) decrease in other assets	(542,196)	(167,718)	48,329	(147,266)
Increase (decrease) in trade and other payables	9,656,213	(6,661,220)	8,290,985	(5,987,239)
	(908,433)	2,266,006	6,808,487	1,625,660
Interest (paid)	(3,331,828)	(1,928,065)	(859,236)	(1,710,018)
Income tax (paid)	(1,471,673)	(640,000)	-	(640,000)
Net cash flows from (to) operating activities	24,115,763	20,873,434	19,559,040	19,103,023

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STATEMENTS OF CASH FLOWS (CONT'D)

	Group		Company	
	2010	2009	2010	2009
Cash flows from (to) investing activities				
(Acquisition) of non-current assets	(18,356,653)	(3,435,786)	(15,897,292)	(3,286,123)
(Acquisition) of investments in subsidiaries (net of cash acquired in the Group)	2,347,079	(53,091)	(343,923)	(53,091)
Proceeds from sale of non-current assets	37,898	185,682	37,898	185,682
Grants and subsidies received	7,609,944	204,736	7,609,944	204,736
Proceeds on sale of emission rights	2,503,450	1,511,636	2,503,450	1,511,636
Interest received	1,475	961	119,125	805
Loans (granted)	-	-	(13,017,031)	-
Net cash flows (to) investing activities	(5,856,807)	(1,585,862)	(18,987,829)	(1,436,355)
Cash flows from (to) financing activities				
Dividends (paid)	(997,809)	-	(997,809)	-
Loans (repaid)	(21,096,310)	(10,880,124)	(4,627,975)	(9,882,420)
Proceeds from borrowings	10,420,729	-	10,420,729	-
Finance lease (payments)	(5,668,532)	(8,075,873)	(5,163,545)	(7,739,139)
Net cash flows (to) financial activities	(17,341,922)	(18,955,997)	(368,600)	(17,621,559)
Net increase in cash and cash equivalents	917,034	331,575	202,611	45,109
Cash and cash equivalents at the beginning of the year	461,601	130,026	158,581	113,472
Cash and cash equivalents at the end of the year	1,378,635	461,601	361,192	158,581
Supplemental information of cash flows:				
Non-cash investing activity:				
Property, plant and equipment acquisitions financed by financial lease	139,373	2,944,588	38,185	2,944,588
Payable for the property, plant and equipment outstanding as at year end	2,223,741	-	2,223,741	-

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

The financial statements were approved by the management on 11 April 2011 and signed on its behalf by:



Gintautas Pangonis
General Director



Nina Šilerienė
Finance Director

AB GRIGIŠKĖS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts are in LTL unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

1. General information

AB Grigiškės (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania on 23 May 1991. The Company is engaged in production of toilet paper, paper towels, paper napkins, medical cellulose wadding, fiberboard, corrugated cardboard and products from corrugated cardboard. Paper mill in Grigiškės was established in 1823.

The address of the Company's registered office is as follows: Vilniaus Str. 10, Grigiškės, Vilniaus Mun., Lithuania.

Shares of the Company are included into the Baltic Main List of NASDAQ OMX Vilnius Stock Exchange (ISIN Code of the shares is LT0000102030). Trading Code of the shares on NASDAQ OMX Vilnius Stock Exchange is GRG1L.

Structure of the Group

On 31 December 2010 and on 31 December 2009 AB Grigiškės group consists of AB Grigiškės and the following subsidiaries (hereinafter referred to as „the Group“):

Name	2010				2009		Address	Principal activity
	Share of the stock held by the Group	Size of investment (cost)	Profit (loss) for the reporting period	Equity at the end of reporting period (100 %)	Share of the stock held by the Group	Size of investment (cost)		
Subsidiaries directly controlled by the Company:								
UAB Baltwood	100%	5,005,000	403,121	4,038,663	100%	5,005,000	Vilniaus Str. 10, Grigiškės, Vilniaus Mun., Lithuania	Wood processing: production of container wood, fuel granules and bonded furniture panels
UAB Ekotara	100%	10,000	-	10,004	100%	10,000	Vilniaus Str. 10, Grigiškės, Vilniaus Mun., Lithuania	Manufacturing of corrugated board, packing from corrugated board. No operations in 2009 and 2010.
UAB Naujieji Verkiai	100%	-	(3,579)	(73,969)	100%	-	Popieriaus Str. 15, Vilnius, Lithuania	Building and development of real estate. No operations in 2009 and 2010.
UAB AGR Prekyba	100 %	343,923	(905,450)	(896,937)	-	-	Konstitucijos Ave. 7, Vilnius, Lithuania	Investment activities and corporate governance.
		5,358,923				5,015,000		
Subsidiaries indirectly controlled by the Company:								
AB Klaipėdos Kartonai	97.96 %	-	6,505,565	50,970,045	-	-	Nemuno Str. 2, Klaipėda, Lithuania	Manufacturing of raw materials for production of corrugated board - testliner and fluting, production of paper honeycomb used in furniture industry.
UAB Klaipėda Recycling	97.96 %	-	-	-	-	-	Nemuno Str 2, Klaipėda, Lithuania	Waste-paper procurement. No operations in 2010.
OA O Mena Pak	82.01 %	-	926,602	(2,150,158)	-	-	Koshevovo Str. 6, Chernigovo distr., Mena, Ukraine	Manufacturing of corrugated board, packing from corrugated board.

AB GRIGIŠKĒS
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts are in LTL unless otherwise stated)

1. General information (cont'd)

Changes in the Group in 2010

On 1 March 2010, the Company acquired the title to 100 % shareholding interest in UAB AGR Prekyba, with the following subsidiaries:

<u>Company name</u>	<u>Shareholder</u>	<u>Share of the stock held by the Group as at acquisition date</u>
UAB Avesko	UAB AGR Prekyba	100 %
AB Klaipėdos Kartonas	UAB Avesko	96.18 %
OAO Mena Pak	AB Klaipėdos Kartonas	80.52 %

At the acquisition of these subsidiaries goodwill of LTL 10,362 thousand has been accounted for under intangible assets caption. The goodwill appears due to expected synergies.

More detailed information on the subsidiaries acquired in 2010 is presented in Note 7.

In 2010 AB Klaipėdos Kartonas established a wholly owned subsidiary UAB Klaipėda Recycling, which did not perform any operations during 2010.

During November 2010 there was an internal reorganisation within the Group, as a result, UAB Avesko was merged with AB Klaipėdos Kartonas. On 16 December 2010 UAB Avesko was removed from the Register of Legal Entities, whereas all the rights and obligations were taken over by AB Klaipėdos Kartonas. Furthermore, share capital of AB Klaipėdos Kartonas was increased by issuing new share emission.

As at 31 December 2010 the number of employees of the Group was 940 (as at 31 December 2009 – 566). As at 31 December 2010 the number of employees of the Company was 448 (as at 31 December 2009 – 475).

The Company's management authorised these financial statements on 11 April 2011. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2. Accounting policies

2.1. Basis of preparation

In the financial statements prepared for the year ended 31 December 2009 the statement that the Group and the Company has complied with International Financial Reporting Standards (IFRS), with an exception in respect of property, plant and equipment, which was accounted for at indexed value, was not included. This discrepancy was amended in these financial statements.

The financial statements for the current year have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (hereinafter the EU), except that, in order to amend the above discrepancy and deviation from IFRS, the management treated the date of transition to IFRS the end of this financial year – 31 December 2010, and not 1 January 2009 (the beginning of the earliest period presented), as required by IFRS 1 "First-time Adoption of International Financial Reporting Standards". Due to this the shareholders' equity as at 1 January 2009 and as at 1 January 2010 and the depreciation expenses in the 2009 and 2010 statement of comprehensive income have not been adjusted to comply with IFRS, as disclosed in the accounting policies hereafter. The reason for this is the fact that it was impracticable to reliably determine the fair value of the buildings as of an earlier date.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

IFRS 1 requires that an entity's first IFRS financial statements are the first annual financial statements in which the entity adopts all IFRS, by an explicit and unreserved statement in those financial statements of compliance with IFRS. IFRS 1 requires the Company to prepare its IFRS financial statements as if it is a first-time adopter as the Company's financial statements in prior years by substance did not have an explicit and unreserved statement of compliance with IFRS, due to the inclusion of indexations of buildings, which did not meet the requirements of IAS 16 "Property, Plant and Equipment" (see section 2.7 below).

These financial statements have been prepared on a historical cost basis.

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group and the Company have adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- IFRIC 12 *Service Concession Arrangements*
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

The principal effects of these changes are as follows:

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes to IFRS 3 and IAS 27 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group and the Company, because the Group and the Company did not have the respective financial statement items and transactions addressed by these changes.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Standards issued but not yet effective

The Group and the Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendments to IFRS 7 *Financial instruments: Disclosures* (effective for financial years beginning on or after 1 July 2011, once adopted by the EU)

The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the standalone and consolidated financial statements since the Group and the Company do not have these kinds of transfers.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group and the Company have not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 12 *Income Taxes* (effective for financial years beginning on or after 1 January 2012, once adopted by the EU).

The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. These changes will have no effect on the financial statements of the Group / the Company, as its investment properties are accounted for using cost method.

Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011).

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group and the Company.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for financial years beginning on or after 1 February 2010).

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company do not have such instruments.

Improvements to IFRSs

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group and the Company:

- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial instruments: Disclosures*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IFRIC 13 *Customer Loyalty Programmes*.

Amendment to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011).

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the standalone and consolidated financial statements because the Group and the Company do not have defined benefit assets.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 July 2010).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group and the Company do not have such transactions, IFRIC 19 will not have any impact on its financial statements.

2.2. Basis of consolidation

The consolidated financial statements of the Group include AB Grigiškės and its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company or the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Basis of consolidation from 1 January 2010

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following difference, however, is carried forward in certain instances from the previous basis of consolidation - upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

2.3. Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2. Accounting policies (cont'd)

2.3. Business combinations and goodwill (cont'd)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2. Accounting policies (cont'd)

2.4. Measurement and presentation currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, Litas (LTL).

The functional currency of the Company and its subsidiaries operating in Lithuania is Litas. The functional currencies of foreign subsidiaries are the respective foreign currencies of the country of residence. Items included in the financial statements of these subsidiaries are measured using their functional currency.

Transactions in foreign currencies are initially recorded in the functional currency as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange as at the date of the statement of financial position.

The assets and liabilities of foreign subsidiaries are translated into Litas at the reporting date using the rate of exchange as of the date of the statement of financial position, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on this translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the statement of comprehensive income.

Starting from 2 February 2002, Lithuanian Litas is pegged to Euro at the rate of 3.4528 Litas for 1 Euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.5. Investments in subsidiaries (the Company)

Investments in subsidiaries in the Company's stand-alone financial statements are carried at cost, less impairment.

2.6. Intangible assets other than goodwill

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably.

The useful lives of intangible assets are assessed to be either finite or indefinite.

After initial recognition, intangible assets with finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their useful lives:

Land lease right	90 years
Licenses, patents and etc.	3 years
Software	1 – 5 years
Other intangible assets	3 – 4 years

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets other than goodwill.

The Group and the Company do not have any intangible assets with infinite useful life other than goodwill.

2. Accounting policies (cont'd)

2.7. Property, plant and equipment

According to the exception available under IFRS 1, part of buildings, acquired before 1 January 1996, were measured at fair values, determined as at 31 December 2010 by independent property valuator, and these values are used as deemed cost at that date (Note 3). Valuation of assets was performed using two methods: market comparables and depreciated replacement value (cost) method.

The market comparables approach (refers to the analogues of sales-purchase transactions). Such method includes using recent arm's length market transactions. Performing the valuation these assumptions are used:

- the asset is disposed in the open market;
- liability for acquired asset has no effect on the value of estimated asset or the part of it;
- the asset is built and/or is used in accordance with the laws' requirements and other standards of the Republic of Lithuania.

Assessing the fair value the total market trend, potential clients, the maximum best usage and liquidity of revalued assets are measured. Using the market comparables approach method the replacement with other asset principal is used. The available data is compared and the adjustment ratios are estimated (time, conditions of financing, place, physical depreciation, etc.).

Replacement value (cost) method is based on an assumption that a knowledgeable buyer will not pay for the same substitute property more than the amount necessary to create such property. This approach is particularly applicable when the subject property is related with relatively new buildings/constructions that reflect the highest or best use of the land lot or when the buildings/constructions on the land lot are relatively unique or specialized and the market has a limited supply of comparable properties. The replacement value of buildings/constructions is determined on the basis of typical sources, first of all details supplies by local professional construction companies and accepted national price-fixing measures. In some cases, the application of this approach is based on the construction cost of the subject property and information about the construction costs of similar buildings, less the accrued depreciation amount calculated with reference to data obtained from all sources.

Other non-current tangible assets are stated at cost less accumulated depreciation and impairment losses.

Till 31 December 2010, buildings were accounted as follows:

- The Company's buildings, acquired before 1 January 1996, were stated at indexed cost less indexed accumulated depreciation and impairment losses evaluated.
- The Company's buildings, acquired after 1 January 1996, were stated at acquisition cost less accumulated depreciation and impairment losses evaluated.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment is ready for its intended use, such as repair and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings and structures	8 – 91 years
Machinery and equipment	5 – 33 years
Vehicles	6 – 8 years
Other equipment and other assets	4 – 10 years

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

Construction in progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operation.

2. Accounting policies (cont'd)

2.8. Investment property

Investment property, including part of buildings and structures, is held for earning rentals and / or for capital appreciation rather than for use in the production, provision of services, or for administration purposes or sale. Investment property is treated as a long-term investment.

Investment property is stated at historical cost less accumulated depreciation and adjusted for recognised impairment loss. Depreciation is calculated on the straight-line method to write-off the cost of each asset to their residual values over their estimated useful life: 10-50 years.

Transfers to and from investment property are made only when there is an evidence of change in an asset's use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value of investment property at the date of change in use. If owner-occupied property becomes an investment property the Company and the Group account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The deemed cost for subsequent investment property accounting is the carrying value at the time of assets' transfer.

2.9. Emission rights

The EU Emission Allowance Trading Scheme was established by Directive 2003/87/EC and commenced on 1 January 2005. The first phase ran for the three-year period from 2005 to 2007; the second runs for five years from 2008 to 2012 to coincide with the first Kyoto Commitment Period. The scheme works on a 'Cap and Trade' basis. 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.

The Company and the Group apply a net liability approach in accounting for the emission rights received. It records the emission allowances granted to it at a nominal (null) amount. Liabilities for emissions are recognised only as emissions are made (provisions are never made on the basis of the expected future emissions) and only when the reporting entity has made emissions in excess of the rights held. The Company and the Group have chosen a system that measures deficits on the basis of an annual allocation of emission rights.

The outright sale of emission rights is recorded as a sale at the fair value of consideration received. Any difference between the fair value of the consideration received and its carrying amount is recorded as a gain or loss, irrespective of whether this creates an actual or an expected deficit of the allowances held. When a sale creates an actual deficit an additional liability is recognised with a charge to the income statement.

2. Accounting policies (cont'd)

2.10. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" the Group's and the Company's financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets at fair value through profit or loss

The category financial assets at fair value through profit or loss includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in statement of comprehensive income.

The Group and the Company does not have any finance instruments at fair value through profit or loss as at 31 December 2010 and 2009.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group / the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process. The Group and the Company did not have any held-to-maturity investments as at 31 December 2010 and 2009.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with unrealized gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the statement of comprehensive income.

The Group and the Company does not have any available for sale financial assets as at 31 December 2010 and 2009.

2. Accounting policies (cont'd)

2.11. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group / the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group / the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group / the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group / the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.12. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of inventory is determined by the first-in, first-out (FIFO) method. Unrealisable inventory has been fully written-off.

2.13. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of 3 months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank accounts as well as deposits in bank with original term equal to or less than 3 months.

2. Accounting policies (cont'd)

2.14. Borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

The Group and the Company capitalise borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no borrowing costs matching the capitalisation criteria in 2010 and in 2009.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings. The borrowings are classified as non-current if the completion of a refinancing agreement before the date of the statement of financial position provides evidence that the substance of the liability at the date of the statement of financial position was long-term.

2.15. Financial lease – Group and the Company as a lessee

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The Group and the Company recognise financial leases as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate of financial lease payment, when it is possible to determine it, in other cases, Company's incremental interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the Group's and the Company's statement of comprehensive income for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot be depreciated over the period longer than lease term, unless the Group or the Company, according to the lease contract, gets transferred their ownership after the lease term is over.

2.16. Non-current employee benefits

According to the requirements of Lithuanian Labour Code, each employee leaving the Group or the Company at the age of retirement is entitled to a one-off payment in the amount of 2 months salary.

Current year cost of employee benefits is recognised as incurred in the statement of comprehensive income. The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the statement of comprehensive income as incurred.

The above mentioned employee benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognized in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognized in the statement of comprehensive income as incurred.

2. Accounting policies (cont'd)

2.17. Grants and subsidies

Grants and subsidies (hereinafter "grants") received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the asset related grants is recognised in the financial statements as used in parts according to the depreciation of the assets associated with this grant. In the statement of comprehensive income, a relevant expense account is reduced by the amount of grant amortisation.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

2.18. Income tax

The Group companies are taxed individually, irrespective of the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania and the Republic of Ukraine.

The standard income tax rate in Lithuania was 15 % in 2010 (20 % in 2009). After the amendments of Income Tax Law of Republic of Lithuania had come into force, 15 % income tax rate has been established for an indefinite period starting 1 January 2010. Income tax rate in Ukraine is 25 %.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.19. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed.

Revenue from services is recognised when services are rendered.

Dividend income from subsidiaries is recognised in the Company's stand-alone financial statements when the dividends are declared by the subsidiary.

2. Accounting policies (cont'd)

2.20. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each date of the statement of financial position.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the statement of comprehensive income. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the statement of comprehensive income. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Other assets (excluding goodwill)

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted for in the same caption of the statement of comprehensive income as the impairment loss.

2.21. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation (Notes 2.7, 2.8, 6), amortization (Note 2.6 and Note 7), valuation of buildings (Note 2.7, Note 6), non-current employee benefits (Note 2.16 and Note 18), impairment evaluation of goodwill (Note 2.3) and other assets (Note 2.20, Note 10 and Note 11). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

At the date of preparing these financial statements, the underlying assumptions and estimates were not subject to a significant risk that from today's point of view it is likely that the carrying amounts of assets and liabilities will have to be adjusted significantly in the subsequent fiscal year. Should the circumstances change in the future, the estimate may need to be revised and the size of such revision cannot be reasonably estimated at the date of these financial statements.

2.22. Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with acquisitions. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2.23. Subsequent events

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

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CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts are in LTL unless otherwise stated)

3. First – time adoption of International Financial Reporting Standards

As it is mentioned in Note 2, these financial statements prepared in accordance with IFRS are the first financial statements in which all IFRS are adopted by the Company, except that the date of full transition has been established as at the end of this financial year – 31 December 2010, and not 1 January 2009 as required by IFRS 1. The only change between the previously applied accounting principles and the principles applied from 31 December 2010 related to the change from the indexed cost to deemed cost for accounting of buildings, as discussed in Note 2.7. Presentation of impact on equity of adopting IFRS to buildings as at 31 December 2010 is presented below:

	<u>Equity</u>
Impact of IFRS 1 adoption:	
Revaluation of buildings at deemed cost (Note 6)	13,047,594
Deferred tax liability related to deemed cost accounting for buildings (Note 26)	<u>(1,957,207)</u>
Total	<u>11,090,387</u>

4. Correction of error

When preparing the financial statements for 2009 and 2008, the Company has not accounted for LTL 315 thousand accrual for non-current employee benefits (net-off related deferred tax). In 2010 the Company corrected the mistake retrospectively by adjusting retained earnings as at 31 December 2008:

Company

	Balance as stated earlier	Accrual for non- current employee benefits	Balance restated
Non-current employee benefits as at 31 December 2009	-	370,053	370,053
Non-current employee benefits as at 31 December 2008	-	370,053	370,053
Deferred income tax liability as at 31 December 2009	252,051	(55,508)	196,543
Deferred income tax liability as at 31 December 2008	359,801	(55,508)	304,293
Retained earnings as at 31 December 2009	5,016,996	(314,545)	4,702,451
Retained earnings as at 31 December 2008	2,011,604	(314,545)	1,697,059

Group

	Balance as stated earlier	Accrual for non- current employee benefits	Balance restated
Non-current employee benefits as at 31 December 2009	-	370,053	370,053
Non-current employee benefits as at 31 December 2008	-	370,053	370,053
Deferred income tax liability as at 31 December 2009	252,051	(55,508)	196,543
Deferred income tax liability as at 31 December 2008	359,801	(55,508)	304,293
Retained earnings as at 31 December 2009	3,647,525	(314,545)	3,332,980
Retained earnings as at 31 December 2008	1,017,966	(314,545)	703,421

Correction of error did not influence statement of comprehensive income for 2009 and 2010.

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5. Financial assets and liabilities and risk management

Credit risk

The Group and the Company does not have any significant concentration of trading counterparties. Group receivables from two major customers as at 31 December 2010 amounted to 13.72 % and 8.82 % respectively (18.9 % and 6.3% as at 31 December 2009) of the total Group's trade receivables. Company's receivables from two major customers as at 31 December 2010 amounted to 14.28 % and 6.48 % respectively (15.5% and 5.2 % as at 31 December 2009) of the total Company's trade receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, consequently, the Company's management considers that its maximum exposure is reflected by the amount of trade and other receivables, net of allowance for doubtful accounts recognised at the date of the statement of financial position. Credit risk or risk that a counterparty will not fulfill its obligations, is controlled by credit terms and monitoring procedures, using services of external credit insurance and debt recovery agencies.

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2010 were 0.8 and 0.5, respectively (0.9 and 0.5 as at 31 December 2009 respectively). The Company's liquidity and quick ratios as at 31 December 2010 were 0.7 and 0.5 respectively (1.1 and 0.7 as at 31 December 2009, respectively). As at 31 December 2010 current liabilities of the Group exceeded its current assets by LTL 13,268 thousand. As at 31 December 2010 current liabilities of the Company exceeded its current assets by LTL 11,527 thousand. The Company uses overdrafts and other short-term credits, furthermore as described in Note 31, some repayment terms for the current loans were already rescheduled subsequently.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2010 and 2009 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings	3,859,292	5,708,956	13,675,239	38,165,663	26,308,694	87,717,843
Financial lease obligations	-	1,494,562	2,923,864	7,405,294	-	11,823,721
Trade payables	-	31,400,977	-	-	-	31,400,977
Other current liabilities	1,552,564	2,337,220	-	-	-	3,889,784
Balance as at 31 December 2010	5,411,856	40,941,715	16,599,103	45,570,958	26,308,694	134,832,325
Interest bearing borrowings	5,117,745	1,145,302	4,511,288	12,283,219	-	23,057,554
Financial lease obligations	-	2,286,574	3,460,750	11,250,095	-	16,997,419
Trade payables	-	12,292,638	-	-	-	12,292,638
Other current liabilities	223,520	70,688	-	-	-	294,208
Balance as at 31 December 2009	5,341,265	15,795,202	7,972,038	23,533,314	-	52,641,819

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5. Financial assets and liabilities and risk management (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2010 and 2009 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings	-	3,801,163	8,345,224	11,368,000	-	23,514,387
Financial lease obligations	-	1,442,976	2,518,020	6,997,832	-	10,958,829
Payables to related parties	-	2,625,855	-	-	-	2,625,855
Trade payables	-	17,517,298	-	-	-	17,517,298
Other current liabilities	420,644	1,989,260	-	-	-	2,409,904
Balance as at 31 December 2010	420,644	27,376,552	10,863,244	18,365,832	-	57,026,272
Interest bearing borrowings	-	1,145,302	4,511,288	12,283,219	-	17,939,809
Financial lease obligations	-	2,210,703	3,271,019	11,152,669	-	16,634,391
Payables to related parties	-	15,254	-	-	-	15,254
Trade payables	-	11,520,137	-	-	-	11,520,137
Other current liabilities	223,520	70,688	-	-	-	294,208
Balance as at 31 December 2009	223,520	14,962,084	7,782,307	23,435,888	-	46,403,799

Interest risk

The major part of the Group's and the Company's borrowings (loans and financial lease obligations) are subject to variable rates, related to EUR LIBOR and VILIBOR, which creates an interest rate risk (Notes 16 and 17). There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as at 31 December 2010 and 2009.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity, other than current year profit impact.

	Increase/decrease in basis points	Effect on the profit before the income tax
2010		
EUR	+100	(642,285)
EUR	-100	642,285
LTL	+100	(240,030)
LTL	-100	240,030
2009		
EUR	+100	(74,839)
EUR	-100	74,839
LTL	+100	(146,676)
LTL	-100	146,676

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5. Financial assets and liabilities and risk management (cont'd)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Company's equity, other than current year profit impact.

2010	Increase/decrease in basis points	Effect on the profit before the income tax
EUR	+100	(20,653)
EUR	-100	20,653
LTL	+100	(208,714)
LTL	-100	208,714
2009		
EUR	+100	(54,264)
EUR	-100	54,264
LTL	+100	(117,176)
LTL	-100	117,176

Foreign exchange risk

The Company's monetary assets and liabilities as at 31 December 2010 and 2009 are denominated in LTL or EUR, to which LTL is pegged, consequently the management of the Company believes that foreign exchange risk on EUR is insignificant.

Monetary assets and liabilities of the Group denominated in various currencies as at 31 December 2010 were as follows:

Group	USD	EUR	LTL	Other
Receivables	2,532	10,802,511	19,571,699	1,980,711
Cash and cash equivalents	-	608,145	770,490	-
Borrowings and financial lease obligations	1,696,450	64,510,578	31,016,051	-
Payables	693	4,749,303	30,218,508	445,305

Monetary assets and liabilities of the Group denominated in various currencies as at 31 December 2009 were as follows:

Group	USD	EUR	LTL	Other
Receivables	-	4,577,061	9,654,431	-
Cash and cash equivalents	-	373,408	88,193	-
Borrowings and financial lease obligations	-	22,474,164	15,634,576	-
Payables	-	2,173,012	10,413,834	-

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5. Financial assets and liabilities and risk management (cont'd)

Fair value of financial instruments

The carrying value the Group's and the Company's principal financial instruments, trade and other payables, long-term and short-term borrowings, approximates their fair value.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, and these parties intend to purchase (sell) assets or net off the liabilities. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

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

- (a) The carrying amount of current trade and other accounts receivable, current accounts payable and short-term borrowings approximates fair value;
- (b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile.

Set out is a comparison by class of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2010	2009	2010	2009
Financial assets				
Cash	1,378,635	461,601	1,378,635	461,601
Receivables from related parties (including loans granted)	10,944	145,045	10,944	145,045
Trade receivables and other receivables	32,346,509	14,086,447	32,346,509	14,086,447
Financial liabilities				
Interest bearing loans and borrowings	85,823,679	22,151,467	85,823,679	22,151,467
Financial lease obligations	11,399,400	15,957,273	11,399,400	15,957,273
Trade payables	31,500,969	12,280,884	31,500,969	12,280,884
Payables to related parties	23,056	11,754	23,056	11,754
Other current liabilities	3,263,036	294,208	3,263,036	294,208

Set out is a comparison by class of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2010	2009	2010	2009
Financial assets				
Cash	361,192	158,581	361,192	158,581
Receivables from related parties (including loans granted)	13,979,846	4,203,276	13,979,846	4,203,276
Trade receivables	17,405,276	13,047,346	17,405,276	13,047,346
Financial liabilities				
Interest bearing loans and borrowings	22,936,721	17,143,967	22,936,721	17,143,967
Financial lease obligations	10,600,827	15,615,846	10,600,827	15,615,846
Trade payables	17,517,298	11,520,137	17,517,298	11,520,137
Payables to related parties	2,625,855	15,254	2,625,855	15,254
Other current liabilities	1,695,188	294,208	1,695,188	294,208

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6. Property, plant and equipment

Group	Buildings and structures	Machinery and equipment	Vehicles	Other assets	Construction in progress and prepayments	TOTAL
Cost or indexed cost:						
Balance as at 31 December 2008	40,878,909	128,121,785	5,857,101	3,515,352	5,580,244	183,953,391
Additions	29,394	239,737	49,165	40,667	6,020,609	6,379,572
Disposals	(14,142)	(6,883,924)	(733,566)	(149,274)	-	(7,780,906)
Reclassifications	-	11,345,620	-	-	(11,345,620)	-
Balance as at 31 December 2009	40,894,161	132,823,218	5,172,700	3,406,745	255,233	182,552,057
Additions arising from acquisition of subsidiaries (Note 7)	34,185,265	19,478,730	664,901	7,735,093	2,671,778	64,735,767
Additions	212,118	2,148,588	650,023	440,917	17,104,562	20,556,208
Revaluation impact of IFRS 1 adoption (Note 3)	13,047,594	-	-	-	-	13,047,594
Transfer*	(14,352,152)	-	-	-	-	(14,352,152)
Disposals	(16,780)	(1,268,208)	(464,191)	(279,953)	-	(2,029,132)
Reclassifications	6,378,936	3,807,038	(527,250)	(6,966,184)	(2,692,540)	-
Reclassification to Investment property	(4,949,000)	-	-	-	-	(4,949,000)
Effect of foreign currency translation	87,710	76,966	-	-	558	165,234
Balance as at 31 December 2010	75,487,852	157,066,332	5,496,183	4,336,618	17,339,591	259,726,576
Accumulated depreciation and impairment:						
Balance as at 31 December 2008	15,793,229	58,388,887	3,319,637	2,356,136	-	79,857,889
Depreciation	1,081,287	14,283,320	800,623	455,342	-	16,620,572
Impairment loss/(reversal)	(6,250)	(277,654)	(39,335)	(6,187)	-	(329,426)
Disposals	(14,140)	(5,939,400)	(607,169)	(146,245)	-	(6,706,954)
Balance as at 31 December 2009	16,854,126	66,455,153	3,473,756	2,659,046	-	89,442,081
Depreciation	2,123,277	16,417,521	810,151	1,300,292	-	20,651,241
Impairment loss/(reversal)	(6,249)	9,405	-	-	-	3,156
Disposals	(15,672)	(1,312,709)	(421,442)	(270,370)	-	(2,020,193)
Transfer*	(14,352,152)	-	-	-	-	(14,352,152)
Reclassifications	579,610	385,581	(162,776)	(802,415)	-	-
Effect of foreign currency translation	2,385	1,983	-	-	-	4,368
Balance as at 31 December 2010	5,185,325	81,956,934	3,699,689	2,886,553	-	93,728,501
Net book value as at 31 December 2009	24,040,035	66,368,065	1,698,944	747,699	255,233	93,109,976
Net book value as at 31 December 2010	70,302,527	75,109,398	1,796,494	1,450,065	17,339,591	165,998,075

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued assets.

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6. Property, plant and equipment (cont'd)

Company	Buildings and structures	Machinery and equipment	Vehicles	Other assets	Construction in progress and prepayments	TOTAL:
Cost or indexed cost:						
Balance as at 31 December 2008	38,923,042	116,001,399	4,414,462	3,347,737	5,580,244	168,266,884
Additions	-	170,957	-	38,343	6,020,609	6,229,909
Disposals	(14,142)	(6,883,924)	(733,566)	(149,274)	-	(7,780,906)
Reclassifications	-	11,345,620	-	-	(11,345,620)	-
Balance as at 31 December 2009	38,908,900	120,634,052	3,680,896	3,236,806	255,233	166,715,887
Additions	-	973,600	350,001	232,263	16,509,966	18,065,830
Revaluation impact of IFRS 1 adoption (Note 3)	13,047,594	-	-	-	-	13,047,594
Transfer*	(14,352,152)	-	-	-	-	(14,352,152)
Disposals	(12,361)	(934,339)	(328,957)	(159,612)	-	(1,435,269)
Reclassifications	(117,266)	40,862	-	117,266	(40,862)	-
Reclassification to Investment property	(4,949,000)	-	-	-	-	(4,949,000)
Balance as at 31 December 2010	32,525,715	120,714,175	3,701,940	3,426,723	16,724,337	177,092,890
Accumulated depreciation and impairment:						
Balance as at 31 December 2008	15,529,978	54,091,698	2,423,282	2,244,352	-	74,289,310
Depreciation	1,028,617	13,036,886	677,648	433,583	-	15,176,734
Impairment loss/(reversal)	(6,250)	(277,654)	(39,335)	(6,187)	-	(329,426)
Disposals	(14,140)	(5,939,400)	(607,169)	(146,245)	-	(6,706,954)
Balance as at 31 December 2009	16,538,205	60,911,530	2,454,426	2,525,503	-	82,429,664
Depreciation	959,142	11,993,471	486,412	330,897	-	13,769,922
Impairment loss/(reversal)	(6,249)	9,405	-	-	-	3,156
Disposals	(12,358)	(934,274)	(295,982)	(159,366)	-	(1,401,980)
Transfer*	(14,352,152)	-	-	-	-	(14,352,152)
Reclassifications	(77,840)	-	-	77,840	-	-
Balance as at 31 December 2010	3,048,748	71,980,132	2,644,856	2,774,874	-	80,448,610
Net book value as at 31 December 2009	22,370,695	59,722,522	1,226,470	711,303	255,233	84,286,223
Net book value as at 31 December 2010	29,476,967	48,734,043	1,057,084	651,849	16,724,337	96,644,280

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued assets.

The Group in 2010 has reviewed the classification of property, plant and equipment in acquired subsidiaries in 2010 and in order to make the consistent classification in all Group has performed reclassifications from other assets and vehicles groups to buildings and structures, machinery and equipment groups.

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2010 amounts to LTL 20,651 thousand and LTL 13,770 thousand, respectively (LTL 16,621 thousand and LTL 15,177 thousand in the year 2009, respectively). Amounts of LTL 427 thousand and LTL 220 thousand for the year 2010 (LTL 792 thousand and LTL 635 thousand for the year 2009, respectively) have been included into general and administrative expenses in the Group's and the Company's statement of comprehensive income, respectively. Meanwhile, LTL 135 thousand and LTL 61 thousand for the year 2010 (LTL 108 thousand and LTL 102 thousand in 2009) have been included into selling and distribution expenses in the Group's and Company's statement of comprehensive income, respectively. The remaining depreciation expenses of property, plant and equipment have been included into the cost of sales.

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6. Property, plant and equipment (cont'd)

As at 31 December 2010, the part of the Group's and the Company's property, plant and equipment with a net book value of LTL 94,522 thousand and LTL 32,990 thousand, respectively (31 December 2009 – LTL 23,289 thousand and LTL 15,717 thousand, respectively) is pledged as a security for repayment of the loans granted by banks (Note 16).

As at 31 December 2010, the Group's and the Company's property, plant and equipment with a net book value of LTL 16,743 thousand and LTL 15,098 thousand, respectively (31 December 2009 – LTL 20,736 thousand and LTL 19,938 thousand, respectively) were acquired under finance lease.

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 50,508 thousand and LTL 35,852 thousand, respectively, were fully depreciated as at 31 December 2010 (LTL 27,382 thousand and LTL 26,686 thousand as at 31 December 2009, respectively), but were still in active use.

As at 31 December, the Group's and Company's constructions in progress and prepayments include unfinished projects:

Group	2010			2009		
	Carrying amount	Total estimated costs of the project	Estimated date of completion	Carrying amount	Total estimated costs of the project	Estimated date of completion
Modernization of heat production for wider use of renewable resources	16,274,396	19,000,000	2011	124,191	17,725,000	2011
Other projects	1,065,195	2,290,000	2011	131,042	480,000	04/2010
TOTAL:	17,339,591	21,290,000		255,233	18,205,000	
Company	2010			2009		
	Carrying amount	Total estimated costs of the project	Estimated date of completion	Carrying amount	Total estimated cost of the project	Estimated date of completion
Modernization of heat production for wider use of renewable resources	16,274,396	19,000,000	2011	124,191	17,725,000	2011
Other projects	449,941	535,000	2011	131,042	480,000	04/2010
TOTAL:	16,724,337	19,535,000		255,233	18,205,000	

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7. Intangible assets

Goodwill

As described in Note 1, on 1 March 2010, the Company acquired the AGR Prekyba group, consisting of UAB AGR Prekyba, UAB Avesko, AB Klaipėdos Kartonas and OAO Mena Pak. Total acquisition price was paid in cash.

At the acquisition of these subsidiaries goodwill of LTL 10,362 thousand has been accounted for. The goodwill appears due to expected synergies.

The Group has elected to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. The fair values and carrying values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2010 were as follows:

	Fair value of assets, liabilities and contingent liabilities	Book values
Property, plant and equipment	64,735,766	64,735,766
Intangible assets	25,350	25,350
Other non-current assets	42,048	42,048
Inventories	4,915,454	4,915,454
Trade receivables	11,338,747 ¹	11,338,747
Other current assets	3,043,313	3,043,313
Total assets	84,100,678	84,100,678
Borrowings	(75,223,665)	(75,223,665)
Deferred income tax liability	(1,938,315)	(1,938,315)
Trade payables	(9,699,344)	(9,699,344)
Other liabilities	(4,776,779)	(4,776,779)
Total liabilities	(91,638,103)	(91,638,103)
Total net liabilities	(7,537,425)	(7,537,425)
Non controlling interest	(2,480,753)	(2,480,753)
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	(10,018,178)	(10,018,178)

¹The gross amount of trade receivables is LTL 11,699 thousand.

The differences between the amounts paid and the fair values of assets acquired and liabilities and contingent liabilities assumed on the acquisition of 2010 were as follows:

Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	(10,018,178)
Goodwill	10,362,101
Total purchase consideration	343,923
Cash acquired	(2,691,002)
Total purchase consideration, net of cash acquired	(2,347,079)

During the period between the acquisition date and 31 December 2010 acquired subsidiaries have generated LTL 108,019 thousand revenue and earned a profit of LTL 6,827 thousand. If the acquisition had been performed as at 1 January 2010, the revenue of the Group for the year ended 31 December 2010 would be larger by LTL 15,941 thousand and the net result would be larger by LTL 582 thousand.

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7. Intangible assets (cont'd)

For the purpose of impairment evaluation, the goodwill as at 31 December 2010 was allocated to AB Klaipėdos Kartonas cash generating unit. The recoverable amount of cash generating unit as at 31 December 2010 was determined based on the value in use calculation using cash flow projections based on the five-year financial forecasts prepared by the management. Significant assumptions used for the assessment of the value in use in 2010 are described further.

The forecasted revenues were estimated based on the management assumptions as at 31 December 2010 assuming that the growth in revenue will be in line with the estimated inflation rate. The costs were projected based on the actual cost level taking into account estimated inflation. Cash flows beyond the five-year period were extrapolated using 2 % growth rate that reflects the best estimate of the management based on the current situation in the respective industry. The discount rate used by the management was estimated for cash generating unit as a weighted average cost of capital for that particular cash generating unit and is equal to 10 % (pre-tax) for cash generating units located in Lithuania.

The assessment of the recoverable amount of the CGU as at 31 December 2010 resulted in no impairment of goodwill.

With regard to the assessment of the recoverable amount of the above mentioned cash generating unit as at 31 December 2010, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Other intangible assets

Group	Land lease right	Licenses, patents	Software	Other assets and prepayments	TOTAL:
Cost:					
Balance as at 31 December 2008	2,400,000	56,238	793,845	11,533	3,261,616
Additions	-	-	802	-	802
Balance as at 31 December 2009	2,400,000	56,238	794,647	11,533	3,262,418
Additions	-	-	111,011	52,548	163,559
Additions arising from acquisition of subsidiaries	-	-	25,350	-	25,350
Disposals, write-offs	-	-	(26,199)	(5,288)	(31,487)
Balance as at 31 December 2010	2,400,000	56,238	904,809	58,793	3,419,840
Accumulated amortization:					
Balance as at 31 December 2008	142,222	40,206	606,041	11,531	800,000
Amortization	26,667	9,066	96,153	-	131,886
Balance as at 31 December 2009	168,889	49,272	702,194	11,531	931,886
Amortization	26,666	6,946	74,063	2,483	110,158
Disposals, write-offs	-	-	(26,187)	(5,286)	(31,473)
Balance as at 31 December 2010	195,555	56,218	750,070	8,728	1,010,571
Net book value as at 31 December 2009	2,231,111	6,966	92,453	2	2,330,532
Net book value as at 31 December 2010	2,204,445	20	154,739	50,065	2,409,269

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7. Intangible assets (cont'd)

Company	Licenses, patents	Software	Other assets and prepayments	TOTAL:
Cost:				
Balance as at 31 December 2008	56,238	778,460	6,245	840,943
Additions	-	802	-	802
Balance as at 31 December 2009	56,238	779,262	6,245	841,745
Additions	-	40,840	52,548	93,388
Disposals, write-offs	-	(16,793)	-	(16,793)
Balance as at 31 December 2010	56,238	803,309	58,793	918,340
Accumulated amortization:				
Balance as at 31 December 2008	40,206	590,944	6,244	637,394
Amortization	9,066	95,916	-	104,982
Balance as at 31 December 2009	49,272	686,860	6,244	742,376
Amortization	6,946	54,112	2,483	63,541
Disposals, write-offs	-	(16,790)	-	(16,790)
31 December 2010	56,218	724,182	8,727	789,127
Net book value as at 31 December 2009	6,966	92,402	1	99,369
Net book value as at 31 December 2010	20	79,127	50,066	129,213

The Group and the Company has not capitalised any internally generated intangible assets. Amortisation expenses of intangible assets are included within general and administrative expenses in the statement of comprehensive income.

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 114 thousand and LTL 24 thousand, respectively as at 31 December 2010 was fully amortised (LTL 704 thousand and LTL 604 thousand as at 31 December 2009, respectively) but was still in use.

As at 31 December 2010 and 31 December 2009, the Group's land lease rights with a carrying value of LTL 2,231 thousand are pledged as a security for repayment of the loan granted by banks (Note 16).

8. Investment property

In 2010 the Company has decided to transfer buildings, located at Vilniaus Str. 10 and Popieriaus Str. in Naujieji Verkiai to investment property as they were started to be held for rental income or for capital appreciation. As at 31 December 2010 these premises were reclassified from buildings to investment property group (Note 6). As at 31 December 2010 investment property fair value approximates its net book value.

9. Non-current receivables

As at 31 December 2010 non-current receivables in the Company mainly includes receivable from UAB AGR Prekyba (Group company) in amount of LTL 10,000 thousand and part of the receivable from UAB Baltwood (Group company) in amount of LTL 3,347 thousand (Note 29).

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10. Inventories

	Group		Company	
	As at 31 December 2010	As at 31 December 2009	As at 31 December 2010	As at 31 December 2009
Raw materials	7,729,979	3,810,541	3,505,847	3,627,898
Work in progress	4,005,095	3,235,730	2,479,607	1,963,139
Finished goods	8,571,378	4,507,780	4,835,824	4,331,382
Goods in transit	178,127	6,664	-	6,664
	20,484,579	11,560,715	10,821,278	9,929,083
Less: net realisable value allowance	(860,669)	(940,636)	(860,669)	(940,636)
TOTAL:	19,623,910	10,620,079	9,960,609	8,988,447

The initial cost value of the Group's and Company's inventories accounted for at net realisable value as at 31 December 2010 amounted to LTL 861 thousand and LTL 861 thousand, respectively (31 December 2009 - LTL 941 thousand and LTL 941 thousand, respectively). Change in allowance for inventories for the year 2010 and 2009 has been included into general and administrative expenses.

As described in the Note 16, as at 31 December 2010 and 2009 Group and the Company have pledged inventory with a carrying value LTL 10,000 thousand and LTL 8,000 thousand respectively, were pledged as a collateral to the banks for the loans received.

11. Accounts receivable

	Group		Company	
	As at 31 December 2010	As at 31 December 2009	As at 31 December 2010	As at 31 December 2009
Trade receivables, gross	31,042,163	14,958,381	17,586,263	17,924,692
Other receivables, gross	2,351,722	158,584	1,279,754	155,544
	33,393,885	15,116,965	18,866,017	18,080,236
Less: allowance for doubtful trade receivables	(1,036,432)	(885,473)	(827,923)	(829,614)
Total amounts receivable within one year:	32,357,453	14,231,492	18,038,094	17,250,622

Change in allowance for doubtful trade receivables for the year 2010 and 2009 has been included into general and administrative expenses.

Trade receivables are non-interest bearing and are generally collectible on 15 – 40 days terms. The carrying amount of the Group's and the Company's trade and other receivables approximates their fair value.

As at 31 December 2010 and 2009 Group's and the Company's trade receivables were pledged to banks as a collateral for the loans received (Note 16).

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11. Accounts receivable (cont'd)

Movements in the allowance for impairment of the receivables (individually impaired) were as follows:

	Group		Company	
	2010	2009	2010	2009
Balance as at 1 January	885,473	122,825	829,614	102,277
Charge for the year	208,509	762,648	-	727,337
Reversed during the year	(57,550)	-	(1,691)	-
Balance as at 31 December	1,036,432	885,473	827,923	829,614

The ageing analysis of the Group's trade receivables (presented net of allowance for impaired receivables) as at 31 December is as follows:

	Trade receivables past due but not impaired						Total
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	
2009	13,215,071	615,452	194,906	-	206,063	-	14,231,492
2010	25,598,820	5,057,781	1,035,374	169,774	495,704	-	32,357,453

The ageing analysis of the Company's trade receivables (presented net of allowance for impaired receivables) as at 31 December is as follows:

	Trade receivables past due but not impaired						Total
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	
2009	10,205,319	1,808,011	762,318	189,438	53,484	4,232,052 ¹	17,250,622
2010	12,996,816	3,180,594	694,379	169,774	50,889	945,642 ¹	18,038,094

¹ As at 31 December 2009 the major part of overdue trade receivable by the Company was a receivable from Company's subsidiary UAB Baltwood, part of which in 2010 was reclassified to non-current receivables (Note 9). The remaining part of overdue receivable from UAB Baltwood as at 31 December 2010 is expected to be received in 2011, as the Group's management's plans are related to further improvement of operational performance and rescheduling terms of repayment of current bank loans due by subsidiary, therefore no allowance was accounted by the Company.

12. Cash and cash equivalents

	Group		Company	
	As at 31 December 2010	As at 31 December 2009	As at 31 December 2010	As at 31 December 2009
Cash at bank	1,339,035	447,564	332,429	146,725
Cash on hand	39,600	14,037	28,763	11,856
TOTAL:	1,378,635	461,601	361,192	158,581

As at 31 December 2010 and 2009 the major part of bank accounts of the Group and the Company are pledged to banks for loans, as described further in Note 16. As at 31 December 2010 and 2009 there were no restrictions on use of cash balances held in the pledged accounts.

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13. Share capital and reserves

Share capital

The share capital of the Company was LTL 60,000 thousand as at 31 December 2010 and as at 31 December 2009. It is divided into 60,000 thousand ordinary registered shares with the nominal value of LTL 1 each.

All shares of the Company are fully paid. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no restrictions of share rights or special control rights for the shareholders set in the articles of association of the Company. No shares of the Company are held by itself or its subsidiaries. No convertible securities, exchangeable securities or securities with warrants are outstanding; likewise, there are no outstanding acquisition rights or undertakings to increase share capital as at 31 December 2010.

As at 31 December 2010 and 31 of December 2009 the shareholders of the Company were:

	2010		2009	
	Number of shares	Number of shares	Number of shares	Proportion of ownership, %
Lithuanian legal entities	29,830,153	49.72	32,556,857	54.26
Lithuanian individuals	23,083,848	38.47	21,323,555	35.54
Foreign legal entities	6,870,407	11.45	6,064,376	10.11
Foreign individuals	215,592	0.36	55,212	0.09
TOTAL:	60,000,000	100	60,000,000	100
	Number of shares	Proportion of ownership, %	Number of shares	Proportion of ownership, %
UAB Ginvildos investicija	29,272,228	48.79	29,272,228	48.79
Rosemount Holdings LLC	5,639,967	9.40	5,639,967	9.40
Mišėikis Dailius Juozapas	-	-	5,997,932	10.00
Mišėikienė Irena Ona	8,731,686	14.55	-	-
TOTAL:	43,643,881	72.74	40,910,127	68.19

Reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 % of distributable retained earnings calculated for a statutory reporting purposes are required until the reserve reaches 10 % of the share capital.

The foreign currency translation reserve is used for translation differences arising on consolidation of financial statements of foreign subsidiary (Note 2.4.).

14. Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company complies with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value (capital in the meaning of IAS 1 comprises equity presented in the financial statements).

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2010 and 2009.

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14. Capital management (cont'd)

The Group and the Company are obliged to upkeep its equity at not less than 50 % of its share capital (comprised of share capital and share surplus), as imposed by the Law on Companies of the Republic of Lithuania. There were no other externally imposed capital requirements on the Group and the Company. As at 31 December 2010 and 2009 the Company was not in breach of the above mentioned requirement. The Group company UAB Baltwood as at 31 December 2010 was not in compliance with this requirement.

Pursuant to the Law on Companies of Republic of Lithuania, if a company does not comply with the above requirement, the Board (or a head of administration, if the Board is not formed), no later than three months from the moment when it became aware or had to become aware about capital deficiency, must convene general shareholders' meeting, which has to consider how to solve this situation in accordance to the law. The situation in the company must be rectified no later than in the six months' period from the moment, when the Board became aware or had to become aware about capital deficiency. If the shareholders' meeting does not make any decision in order to rectify the situation or if situation was not rectified during the six month period since the Board became aware or had to become aware about capital deficiency, the Board (or head of administration, if the Board is not formed), no later than during two months since the date of shareholders' meeting, must apply to the court regarding reduction of a company's share capital in accordance to the law requirements. After the court's decision a company must reduce its share capital and make appropriate changes in company's by-laws. The shareholder of the company is planning to take certain actions to remedy this situation.

The Group and the Company monitors capital using debt to equity ratio. Capital includes ordinary shares, reserves, retained earnings attributable to the equity holders of the parent.

	Group		Company	
	2010	2009	2010	2009
Non-current liabilities (including deferred tax and grants)	83,323,554	23,674,428	28,794,109	23,581,987
Current liabilities	68,141,887	30,379,999	40,368,580	24,092,121
Liabilities	151,465,441	54,054,427	69,162,689	47,674,108
Equity	87,188,679	67,328,645	80,108,212	68,698,116
Debt to equity ratio	174%	80%	86%	69%

15. Grants and subsidies

Change in grants and subsidies in the Group and the Company is as follows:

Balance as at 31 December 2008	318,641
Received	204,735
Amortisation	(61,438)
Balance as at 31 December 2009	461,938
Received	8,043,997
Amortisation	(95,415)
Balance as at 31 December 2010	8,410,520

The grants mainly consist of the funds received from the EU for the purpose of construction of structures, acquisition of machinery and equipment (non-current assets). The Company in 2010 has started construction of bio-fuel boiler house, for which grants from EU funds is received.

The amortisation of grants is accounted for under cost of sales in the statement of comprehensive income and reduces the depreciation of related asset expenses.

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16. Borrowings

	Group		Company	
	As at 31 December 2010	As at 31 December 2009	As at 31 December 2010	As at 31 December 2009
Non-current borrowings:				
Bank borrowings secured by the Group assets	63,098,888	11,964,440	11,147,580	11,964,440
	63,098,888	11,964,440	11,147,580	11,964,440
Current borrowings:				
Current portion of non-current bank borrowings secured by the Group assets	15,253,992	10,187,027	4,318,342	5,179,527
Current bank borrowings secured by the Group assets	7,470,799	-	7,470,799	-
	22,724,791	10,187,027	11,789,141	5,179,527
TOTAL:	85,823,679	22,151,467	22,936,721	17,143,967

Borrowings at the end of the year in national and foreign currencies:

	Group		Company	
	2010	2009	2010	2009
LTL	20,403,036	14,667,602	17,653,036	11,717,602
EUR	64,228,472	7,483,865	5,283,685	5,426,365
USD	1,192,171	-	-	-
TOTAL:	85,823,679	22,151,467	22,936,721	17,143,967

Compliance with loan covenants

Based on the terms of the loan and overdraft agreements, the Group and the Company have to comply with certain financial and non-financial covenants, such as: debt service coverage ratio, EBITDA to financial liabilities ratio, capital ratio, free cash flow indicator and a minimum set volume of the Company's and certain of its subsidiaries bank transactions shall be performed through the bank.

As at 31 December 2010 the Company and the Group complied with all the mentioned debt covenants, except for UAB Baltwood (subsidiary of the Company) EBITDA to financial liabilities ratio, which was equal to 2.4 (required not less than 3.8). Therefore, the loan of LTL 3.859 thousand is accounted for as current loans in the statement of financial position of the Group as at 31 December 2010. The management does not consider that the mentioned breach could result in any sanctions from the bank, furthermore, the covenant is being renegotiated with the bank.

Terms and debt repayment schedule

The Group and the Company face risk due to possible interest rate fluctuation. Actual interest rates are close to effective interest rates. As at 31 December 2010 the weighted average annual interest rate of borrowings outstanding was 2.58 % (2.78 % as at 31 December 2009). In 2010 and 2009 the period of repricing of floating interest rates on borrowings varies from 1 day to 12 months.

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16. Borrowings (cont'd)

Pledged assets

For the loans from banks the Group and the Company have pledged property, plant and equipment (Note 6), intangible assets (Note 7), inventories (Note 10), trade accounts receivable (Note 11), bank accounts (Note 12), share of stock of AB Klaipėdos Kartonai held by the Group and UAB AGR Prekyba shares (Note 1).

The following interest rate bases are set for the borrowings as at 31 December 2010:

Group	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	LTL	VILIBOR	2011	7,470,799
Secured bank loan	LTL	VILIBOR	2011-2013	10,182,240
Secured bank loan	EUR	LIBOR	2011-2014	5,283,681
Secured bank loan	EUR	VILIBOR	2011-2019	57,835,496
Secured bank loan	USD	LIBOR	2011	1,192,171
Secured bank loan	LTL	VILIBOR	2011	2,750,000
Secured bank loan	EUR	LIBOR	2011	1,109,292
TOTAL:				85,823,679

Company	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	LTL	VILIBOR	2011	7,470,799
Secured bank loan	LTL	VILIBOR	2011-2013	10,182,241
Secured bank loan	EUR	LIBOR	2011-2014	5,283,681
TOTAL:				22,936,721

The following interest rates are set for the borrowings as at 31 December 2009:

Group	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	LTL	VILIBOR	2010	268,422
Secured bank loan	LTL	VILIBOR	2010-2013	11,449,180
Secured bank loan	EUR	LIBOR	2010-2014	5,426,365
Secured bank loan	LTL	VILIBOR	2010-2011	2,950,000
Secured bank loan	EUR	LIBOR	2010-2011	2,057,500
TOTAL:				22,151,467

Company	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	LTL	VILIBOR	2010	268,422
Secured bank loan	LTL	VILIBOR	2010-2013	11,449,180
Secured bank loan	EUR	LIBOR	2010-2014	5,426,365
TOTAL:				17,143,967

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16. Borrowings (cont'd)

Terms of repayment of non-current debt are as follows:

Year	Group		Company	
	As at 31 December 2010	As at 31 December 2009	As at 31 December 2010	As at 31 December 2009
Within one year	15,253,992	10,187,027	4,318,342	5,179,527
In the period of five years	63,098,888	11,964,440	11,147,580	11,964,440
	78,352,880	22,151,467	15,465,922	17,143,967

17. Financial lease obligations

The assets leased by the Group and the Company under financial lease contracts mainly consist of vehicles. Apart from the lease payments, other obligations under lease contracts are maintenance and insurance. The terms of the financial lease agreements are from 2 to 4 years. The currencies of the financial lease agreements are EUR and LTL.

As at 31 December 2010 the interest rate on the financial lease obligations fluctuates from 6 to 12 month EUR LIBOR or 6 month VILIBOR (as at 31 December 2009 – 6 month EUR LIBOR - 3 month EUR LIBOR or 6 month VILIBOR).

Future minimal lease payments under the above mentioned financial lease contracts are as follows:

	Group		Company	
	As at 31 December 2010	As at 31 December 2009	As at 31 December 2010	As at 31 December 2009
Within one year	4,466,109	5,747,324	3,960,996	5,481,722
From one to five years	7,360,661	11,250,095	6,997,832	11,152,669
Total financial lease obligations	11,826,770	16,997,419	10,958,828	16,634,391
Interest	(427,370)	(1,040,146)	(358,001)	(1,018,545)
Present value of financial lease obligations	11,399,400	15,957,273	10,600,827	15,615,846
Financial lease obligations are accounted as:				
- current	4,242,460	5,275,819	3,787,762	5,026,833
- non-current	7,156,940	10,681,454	6,813,065	10,589,013

The fair value of the Group's and the Company's lease liabilities approximate 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 6).

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18. Non-current employee benefits

As at 31 December 2010 the Group and the Company accounted for non-current employee benefits for employees leaving the Group or the Company at the age of retirement. Related expenses are included into operating expenses in the Group's and the Company's statements of comprehensive income.

	<u>Group</u>	<u>Company</u>
As at 31 December 2008	370,053	370,053
Change during the year 2009	-	-
As at 31 December 2009	370,053	370,053
Additions arising from acquisitions of new subsidiaries	347,682	-
Change during the year 2010	12,332	-
As at 31 December 2010	<u>730,067</u>	<u>370,053</u>

Main assumptions applied while evaluating the Group's and the Company's non-current employee benefits are as follows:

	<u>As at 31 December 2010</u>	<u>As at 31 December 2009</u>
Discount rate	4.85%	7.67%
Anticipated annual salary increase	2.00%	2.00%

19. Trade and other payables

Terms and conditions of the financial liabilities other than borrowings are as follows:

- Trade payables are non-interest bearing and are normally settled on 10 to 90-day terms.
- Other payables are non-interest bearing and have an average term of six months.

	<u>Group</u>		<u>Company</u>	
	<u>As at 31 December 2010</u>	<u>As at 31 December 2009</u>	<u>As at 31 December 2010</u>	<u>As at 31 December 2009</u>
Trade payables	31,524,025	12,292,638	20,143,153	11,535,391
Taxes, salaries and social insurance	4,754,736	1,889,972	2,038,276	1,696,895
Advances received	885,715	146,506	196,772	111,622
Other payables	3,889,784	588,037	2,409,904	541,853
TOTAL:	<u>41,054,260</u>	<u>14,917,153</u>	<u>24,788,105</u>	<u>13,885,761</u>

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20. Segment information

Operating segments

For management purposes, the Group and the Company are organized into three operating business units based on their products produced and have three reportable segments: paper, hardboard and wood processing, raw material for corrugated cardboard and related production. Segment information about these business segments is presented below:

Group 2010

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard and related production	Unallocated	TOTAL:
Sales	60,762,127	64,271,728	114,503,450	6,248,162 ¹	245,785,467
Cost of sales	(51,556,002)	(59,889,429)	(96,137,055)	(5,472,741) ²	(213,055,227)
Gross profit	9,206,125	4,382,299	18,366,395	775,421	32,730,240
Depreciation and amortization	6,292,205	5,436,581	5,965,777	3,066,836 ³	20,761,399
Segment property, plant and equipment and intangible assets	40,493,130	45,326,172	61,586,924	21,001,118 ³	168,407,344
Segment capital expenditure	1,191,212	16,920,371	2,112,153	496,031 ³	20,719,767

Group 2009

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard and related production	Unallocated	TOTAL:
Sales	56,962,494	47,157,259	6,808,547	8,001,436 ¹	118,929,736
Cost of sales	(43,886,572)	(44,157,253)	(5,518,338)	(5,197,523) ²	(98,759,686)
Gross profit	13,075,922	3,000,006	1,290,209	2,803,913	20,170,050
Depreciation and amortization	7,423,539	5,958,619	586,929	2,783,371 ³	16,752,458
Segment property, plant and equipment and intangible assets	40,723,511	27,025,372	1,325,786	26,365,839 ³	95,440,508
Segment capital expenditure	621,909	754,289	14,581	4,989,595 ³	6,380,374

¹ Unallocated sales include sales not attributable to either of the listed segments, namely sales of heating energy (steam) (as the Company has its own steam house) and other utilities services (in total for 2010 - LTL 6,248 thousand and for 2009 - LTL 8,001 thousand).

² Unallocated cost of sales include costs related to unallocated sales (for 2010 - LTL 5,473 thousand and for 2009 - LTL 5,198 thousand), identifiable as expenses for purchases of wood and gas needed for energy production.

³ Unallocated depreciation and amortization, property, plant and equipment and intangible assets and capital expenditure are related to energy and other utilities services sales.

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20. Segment information (cont'd)

Company 2010	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard, and related production	Unallocated	TOTAL:
Sales	60,764,575	49,220,022	11,472,674	8,285,197 ¹	129,742,468
Cost of sales	(51,558,450)	(46,904,242)	(9,690,735)	(7,509,775) ²	(115,663,202)
Gross profit	9,206,125	2,315,780	1,781,939	775,422	14,079,266
Depreciation and amortization Segment property, plant and equipment and intangible assets	6,292,205	3,926,359	550,310	3,064,589 ³	13,833,463
Segment capital expenditure	40,493,130	34,291,773	984,643	21,003,947 ³	96,773,493
Segment capital expenditure	1,191,212	16,261,146	210,829	496,031 ³	18,159,218
Company 2009					
	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard, and related production	Unallocated	TOTAL:
Sales	56,970,841	36,764,929	6,808,802	9,164,764 ¹	109,709,336
Cost of sales	(43,894,834)	(35,027,738)	(5,518,593)	(6,570,861) ²	(91,012,026)
Gross profit	13,076,007	1,737,191	1,290,209	2,593,903	18,697,310
Depreciation and amortization Segment property, plant and equipment and intangible assets	7,423,539	4,487,878	586,929	2,783,370 ³	15,281,716
Segment capital expenditure	40,723,511	15,970,456	1,325,786	26,365,839 ³	84,385,592
Segment capital expenditure	634,225	604,627	14,581	4,977,278 ³	6,230,711

¹ Unallocated sales include sales not attributable to either of the listed segments, namely sales of heating energy (steam) (as the Company has its own steam house) and other utilities services (in total for 2010 - LTL 8,285 thousand and for 2009 - LTL 9,165 thousand).

² Unallocated cost of sales include costs related to unallocated sales (for 2010 - LTL 7,510 thousand and for 2009 - LTL 6,571 thousand), identifiable as expenses for purchases of wood and gas needed for energy production.

³ Unallocated depreciation and amortization, property, plant and equipment and intangible assets and capital expenditure are related to energy and other utilities services sales.

Payroll related expenses included in the Group's and Company's cost of sales in 2010 amounts to LTL 21,550 thousand and LTL 12,551 thousand, respectively (in 2009 - LTL 14,795 thousand and LTL 13,445 thousand, respectively).

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20. Segment information (cont'd)

Split by geographical areas

The following tables present geographical information on revenue based on the location of the customers information for the year ended 31 December:

	Group		Company	
	2010	2009	2010	2009
Domestic market (Lithuania)	97,908,658	66,651,112	53,887,107	60,169,283
Foreign market				
Latvia	21,526,856	10,261,059	12,938,788	9,126,176
Poland	32,463,404	7,634,539	13,406,537	7,536,625
Sweden	8,859,379	7,351,612	8,859,379	7,351,612
Denmark	10,663,434	6,754,498	10,251,046	6,576,238
Estonia	9,356,598	4,594,331	6,458,927	4,594,331
The Netherlands	3,397,253	3,149,024	3,397,253	3,149,024
Slovakia	3,963,554	2,936,754	3,963,554	2,936,754
Finland	2,818,267	1,832,893	2,671,885	1,832,893
Great Britain	3,935,663	1,451,464	3,935,663	1,430,747
Norway	1,275,057	1,340,322	1,275,057	1,340,322
Czech Republic	5,302,193	1,280,158	3,585,410	1,214,340
Germany	3,912,088	656,879	2,253,797	555,526
Belarus	5,173,770	563,732	978,551	563,732
Italy	1,009,721	512,879	-	-
Hungary	481,917	440,864	134,002	124,263
France	821,514	12,679	-	-
Russia	6,439,534	-	-	-
Ukraine	24,369,433	-	-	-
Other countries	2,107,174	1,504,937	1,745,512	1,207,470
Foreign market, total	147,876,809	52,278,624	75,855,361	49,540,053
TOTAL:	245,785,467	118,929,736	129,742,468	109,709,336

Property, plant and equipment and investment property location

	Group		Company	
	2010	2009	2010	2009
Lithuania	162,111,027	93,109,976	101,593,280	84,286,223
Ukraine	8,836,048	-	-	-
TOTAL:	170,947,075	93,109,976	101,593,280	84,286,223

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21. Other operating income

	Group		Company	
	2010	2009	2010	2009
Gain from sale of emission rights	2,503,450	1,511,636	2,503,450	1,511,636
Rental income	554,796	596,783	545,796	647,959
Income from sale of low value inventory	892,889	-	892,889	-
Income from sale of scrap	376,588	294,189	376,588	291,632
Write-off of accounts payables	14,838	2,808	-	2,808
Insurance compensations	8,823	27,622	6,463	22,590
Gain from disposal of property, plant and equipment	3,719	16,333	4,923	16,333
Other income	190,423	78,271	-	136,657
TOTAL:	4,545,526	2,527,642	4,330,109	2,629,615

22. Other operating expenses

	Group		Company	
	2010	2009	2010	2009
Expenses related to rented property	169,898	169,898	143,100	169,898
Other expenses	260,574	75,491	7,824	75,491
TOTAL:	430,472	245,389	150,924	245,389

23. Selling and distribution expenses

	Group		Company	
	2010	2009	2010	2009
Fuel and transportation services	5,943,631	3,633,986	4,687,113	3,295,586
Salaries and related expenses	2,198,484	2,150,399	1,993,301	1,996,322
Mediation, marketing, promotion and representation	1,378,672	1,360,999	1,361,262	1,354,611
Repairs and maintenance	474,506	480,172	463,710	464,586
Depreciation and amortization	135,368	108,327	61,167	101,619
Other sales expenses	625,897	515,117	459,212	506,350
TOTAL:	10,756,558	8,249,000	9,025,765	7,719,074

24. General and administrative expenses

	Group		Company	
	2010	2009	2010	2009
Salaries and related expenses	5,809,972	4,057,708	3,652,992	3,595,542
Taxes, except for income tax	1,132,365	745,655	690,963	682,497
Fuel and transportation services	645,302	373,888	318,943	309,982
Bank charges	449,519	151,570	175,159	138,003
Asset repairs and maintenance	468,135	452,415	465,113	450,940
Depreciation and amortization	426,607	791,652	219,717	634,890
Security services	389,356	354,693	302,656	374,693
Insurance services	187,553	232,181	150,629	172,765
Consulting services	353,769	268,130	176,965	256,130
Communication services	118,269	67,443	65,028	67,443
Advertising and representation	127,245	52,689	54,233	46,247
Other administrative expenses	1,021,176	1,502,752	572,139	1,345,587
TOTAL:	11,129,268	9,050,776	6,844,537	8,074,719

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25. Finance income and (expenses), net

	Group		Company	
	2010	2009	2010	2009
Interest income	1,475	961	119,126	805
Other finance income	2,382	4,504	2,382	2,179
Total finance income	3,857	5,465	121,508	2,984
Interest on loans and leases	(2,885,040)	(1,922,076)	(859,236)	(1,704,028)
Net foreign exchange losses	(3,204,977)	(31,830)	(38,007)	(30,350)
Other finance expenses	(219,170)	(32,988)	(5,013)	(9,418)
Total finance expenses	(6,309,187)	(1,986,894)	(902,256)	(1,743,796)
Finance income and expenses, net	(6,305,330)	(1,981,429)	(780,748)	(1,740,812)

Foreign exchange loss increased in 2010 in the Group due to currency fluctuations of acquired subsidiary OAO Mena Pak which is operating in Ukraine.

26. Income tax

Components of income tax expenses	Group		Company	
	2010	2009	2010	2009
Current income tax	1,276,782	651,046	188,551	651,046
Correction of income tax for previous periods	-	(1,757)	-	(1,757)
Deferred income tax (income)	(164,926)	(107,750)	(100,859)	(107,750)
Income tax expenses recorded in the statement of comprehensive income	1,111,856	541,539	87,692	541,539

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26. Income tax (cont'd)

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pretax income as follows:

	Group		Company	
	2010	2009	2010	2009
Profit before tax	8,654,138	3,171,098	1,607,401	3,546,931
Income tax expenses computed at 15 % in 2010 and 20 % in 2009	1,298,121	634,220	241,110	709,386
Effect of higher tax rate in Ukraine (25% in 2010)	251,118	-	-	-
Effect of change in tax rate	-	(84,017)	-	(84,017)
Change in deferred tax asset valuation allowance	945,082	301,644	1,042,034	172,936
Correction of income tax for previous periods	-	(1,758)	-	(1,758)
Utilized tax incentive due to investment projects	(1,186,127)	-	(1,186,127)	-
Permanent differences	(196,338)	(308,550)	(9,325)	(255,008)
Income tax expenses reported in the statement of comprehensive income	1,111,856	541,539	87,692	541,539

	Group		Company	
	As at 31 December 2010	As at 31 December 2009 (Restated)	As at 31 December 2010	As at 31 December 2009 (Restated)
Deferred income tax asset				
Allowance for accounts receivable	209,428	132,821	124,188	124,442
Investment incentive (bio-fuel boiler construction)	995,256	-	995,256	-
Allowance for inventories	129,100	141,095	129,100	141,095
Non-current employee benefits	109,510	55,508	55,508	55,508
Vacation accrual	602,034	195,858	225,496	174,947
Tax loss carry forward	871,471	854,995	-	-
Deferred income tax asset before valuation allowance	2,916,899	1,380,277	1,529,548	495,992
Less: valuation allowance	(1,760,238)	(815,156)	(1,248,546)	(266,348)
Deferred income tax asset, net of valuation allowance	1,156,561	565,121	281,002	229,644
Deferred income tax liability				
Intangible assets (land lease)	(330,667)	(334,667)	-	-
Property, plant and equipment (investment incentive)	(317,662)	(366,096)	(317,662)	(365,286)
Property, plant and equipment revaluation(deemed cost)	(4,328,492)	-	(1,957,207)	-
Property, plant and equipment (repairs incentive)	(59,024)	(60,901)	(59,024)	(60,901)
Other	(47,855)	-	-	-
Deferred income tax liability	(5,083,700)	(761,664)	(2,333,893)	(426,187)
Deferred income tax, net	(3,927,139)	(196,543)	(2,052,891)	(196,543)

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26. Income tax (cont'd)

The Group's deferred tax asset and liability were set-off to the extent they related to the same tax administration institution and the taxable entity.

The changes of temporary differences before and after tax effect in the Group were as follows:

Group	As at 31 December 2008 (Restated)	Recognised in statement of compre- hensive income	As at 31 December 2009 (Restated)	Recognised in statement of compre- hensive income	Acquired subsidiaries	Recognised in retained earnings	As at 31 December 2010
Intangible assets	(2,257,780)	26,667	(2,231,113)	26,668	-	-	(2,204,445)
Property, plant and equipment (investment incentive)	(2,766,180)	325,537	(2,440,643)	322,894	-	-	(2,117,749)
Property, plant and equipment Investment incentive (bio-fuel boiler construction)	-	-	-	40,340	(15,848,907)	(13,047,594)	(28,856,161)
Property, plant and equipment (repairs incentive)	(418,518)	12,511	(406,007)	12,511	-	-	(393,496)
Non-current employee benefits	370,053	-	370,053	12,332	347,682	-	730,067
Allowance for accounts receivable	122,825	762,648	885,473	150,959	359,753	-	1,396,185
Allowance for inventories	515,067	425,569	940,636	(79,967)	-	-	860,669
Vacation accrual	108,292	1,197,425	1,305,717	488,473	2,219,371	-	4,013,561
Tax loss carry forward	6,223,778	(523,805)	5,699,973	109,831	-	-	5,809,804
Other	-	-	-	(319,033)	-	-	(319,033)
Total temporary differences before valuation allowance	1,897,537	2,226,552	4,124,089	7,400,048	(12,922,101)	(13,047,594)	(14,445,558)
Valuation allowance	(3,926,154)	(1,508,219)	(5,434,373)	(6,300,546)	-	-	(11,734,919)
Total temporary differences	(2,028,617)	718,333	(1,310,284)	1,099,502	(12,922,101)	(13,047,594)	(26,180,477)
Deferred income tax, net	(304,293)	107,750	(196,543)	164,926	(1,938,315)	(1,957,207)	(3,927,139)
Change in deferred tax attributable to:							
Change in temporary differences		23,733		164,926			
Change in tax rate		84,017		-			

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26. Income tax (cont'd)

The changes of temporary differences before and after tax effect in the Company were as follows:

Company	As at 31 December 2008	Recognised in statement of comprehensive income	As at 31 December 2009	Recognised in statement of comprehensive income	Recognised in retained earnings	As at 31 December 2010
Property, plant and equipment (investment incentive)	(2,766,180)	325,537	(2,440,643)	322,894	-	(2,117,749)
Property, plant and equipment Investment incentive (bio-fuel boiler construction)	-	-	-	6,635,040	(13,047,594)	(13,047,594)
Property, plant and equipment (repairs incentive)	(418,518)	12,511	(406,007)	12,511	-	(393,496)
Non-current employee benefits	370,053	-	370,053	-	-	370,053
Allowance for accounts receivable	102,277	727,337	829,614	(1,691)	-	827,923
Allowance for inventories	515,067	425,569	940,636	(79,967)	-	860,669
Vacation accrual	-	1,166,304	1,166,304	337,000	-	1,503,304
Tax loss carry forward	1,385,693	(1,385,693)	-	-	-	-
Total temporary differences before valuation allowance	(811,608)	1,271,565	459,957	7,225,787	(13,047,594)	(5,361,850)
Valuation allowance	(987,397)	(1,152,906)	(2,140,303)	(6,553,397)	-	(8,323,641)
Total temporary differences	(1,799,005)	118,659	(1,680,346)	672,390	(13,047,594)	(13,685,491)
Deferred income tax, net	(304,293)	107,750	(196,543)	100,859	(1,957,207)	(2,052,891)
Change in temporary differences		23,733		100,859		
Change in tax rate		84,017		-		

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15 % rate in 2010 and 2009. The deferred tax of company operating in Ukraine was calculated using 25 % tax rate in 2010. The expiry date of deferred tax asset from investment incentive is the end of year 2014.

27. Basic and diluted earnings per share (LTL)

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. The Company has no diluting instruments, therefore basic and diluted earnings per share are equal. Calculation of basic and diluted earnings per share is presented below:

	Group	
	2010	2009
Net profit (loss) attributable to the shareholders	7,200,526	2,629,559
Average number of ordinary shares	60,000,000	60,000,000
Earnings per share	0.12	0.04

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28. Dividends per share

	<u>2010</u>	<u>2009</u>
Approved dividends*	1,200,000	-
Number of shares**	<u>60,000,000</u>	<u>60,000,000</u>
Approved dividends per share (LTL)	<u>0.02</u>	<u>-</u>

* The year when the dividends are approved.

** At the date when dividends are approved.

29. Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group and the Company and considered the following:

- UAB Ginvildos Investicija - the main shareholder of the Company;
- Subsidiaries of AB Grigiškės (for the list of the subsidiaries, see also Note 1);
- UAB Didma, UAB Remada and UAB Naras (companies related to the members of Supervisory board).

Transactions with related parties include sales and purchases of goods and services in the ordinary course of business.

There are no guarantees or pledges given or received in respect of the related party payables and receivables. Related party receivables and payables are expected to be settled in cash or set-off against payables / receivables to / from a respective related party.

Group 2010

	Sale of goods and services	Purchase of goods and services	Amounts receivable	Amounts payable
UAB Ginvildos investicija	6,676	139,075	-	23,056
UAB Didma	601,815	360,022	183,899	-
UAB Naras	55,249	3,700	12,286	-
UAB Naujieji Verkiai	3,086	-	897	-
TOTAL:	<u>666,826</u>	<u>502,797</u>	<u>197,082</u>	<u>23,056</u>

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29. Related party transactions (cont'd)

Group 2009

	Sale of goods and services	Purchase of goods and services	Amounts receivable	Amounts payable
UAB Ginvildos investicija	329	161,276	-	11,754
UAB Didma	362,453	190,581	129,985	-
UAB Remada	873	-	5,228	-
UAB Ekotara	-	-	9,842	-
UAB Naras	53,260	-	-	-
TOTAL:	416,915	351,857	145,055	11,754

Company 2010

	Sale of goods and services	Purchase of goods and services	Amounts receivable	Amounts payable
UAB Baltwood	2,429,075	2,573,362	3,841,528	-
UAB AGR Prekyba	-	-	10,000,000	-
UAB Ginvildos investicija	380	139,075	-	23,056
UAB Didma	2,548	313,427	-	-
UAB Naras	55,205	-	10,047	-
UAB Naujieji Verkliai	3,086	-	897	-
AB Klaipėdos Kartonas	332,284	7,133,263	127,374	2,602,799
TOTAL:	2,822,578	10,159,127	13,979,846	2,625,855

Company 2009

	Sale of goods and services	Purchase of goods and services	Amounts receivable	Amounts payable
UAB Baltwood	1,782,502	1,411,285	4,187,969	-
UAB Ginvildos investicija	329	154,850	-	11,754
UAB Didma	3,274	173,781	237	-
UAB Remada	873	-	5,228	-
UAB Naras	53,260	-	9,842	-
UAB Naujieji Verkliai	-	9,500	-	3,500
TOTAL:	1,840,238	1,749,416	4,203,276	15,254

As at 31 December 2010 receivables in amount of LTL 10,000 thousand from UAB AGR Prekyba and part of the receivable in amount of LTL 3,347 thousand from UAB Baltwood were accounted for under non-current receivables caption in the financial statements position of the Company (Note 9). Intercompany receivables bear interest rates that approximate market interest rates.

Purchases from UAB Baltwood include purchases of container wood. Moreover, purchases from AB Klaipėdos Kartonas include purchase of testliner and fluting used as raw materials in the production. Accounts receivable and accounts payable to the related parties bear the same terms and conditions as receivables and payables to external customers and suppliers.

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29. Related party transactions (cont'd)

Remuneration of the management

For the year ended 31 December, the remuneration of the management was as follows:

	Group		Company	
	2010	2009	2010	2009
Management remuneration	1,750,288	1,055,237	1,105,321	947,020
Average number of managers	14	8	8	7

In 2010 and 2009 the management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued.

30. Off-balance sheet items

Information on emission rights

Emission allowances that were granted to the Company are reflected in the permission to emit greenhouse gasses. Emission rights are granted free of charge and are recognized as intangible assets at zero value.

The Company received 256,626 units of emission rights for the period 2008-2012. In addition total of 79,475 units were received from a reserve in 2009 and 2010 for usage till the end of 2012. The number of rights is equally apportioned for each year.

Emission rights	Quantity	
	Group	Company
As at 31 December 2008	(12,617)	(12,617)
Emission rights allocated	53,356	53,356
Emission rights used	(33,356)	(33,356)
Sale of emission right	(38,000)	(38,000)
As at 31 December 2009	(30,617)	(30,617)
Emission rights allocated	85,669	53,356
Emission rights allocated additionally	30,125	30,125
Emission rights used	(69,334)	(36,223)
Sale of emission right	(42,000)	(42,000)
As at 31 December 2010	(26,157)	(25,359)

The shortage of emission rights as at 31 December 2010 and as at 31 December 2009 was covered from the rights received in 2011 and in 2010, respectively before reporting to the regional environment protection department. There was no liability recognized in the statement of financial position arising from shortage of rights because it is not expected to incur expenses for the acquisition of required emission rights.

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31. Subsequent events

On 5 January 2011 the Company increased the share capital of UAB AGR Prekyba by LTL 10 million, by issuing 100,000 shares with a nominal value of LTL 100 each.

On 15 January 2011 the Company has signed amendment of overdraft LTL 4,000 thousand (outstanding balance as at 31 December 2010 LTL 2,164 thousand (Note 16)) agreement with AS UniCredit Bank Lithuanian branch, according to which the term of the overdraft repayment was extended till 15 January 2012.