AB Grigiškės

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011,
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS,
AS ADOPTED BY THE EUROPEAN UNION,
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Register of Legal Entities

Independent auditor's 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 statements of financial position as at 31 December 2011, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing 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 at the 31 December 2010, and not at 1 January 2009 as would be required by IFRS 1. 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 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 31 December 2009 and the statement of comprehensive income for the year 2010. Our audit opinion on the Group's and the Company's financial statements for the period ended 31 December 2010 was qualified accordingly. Our opinion on the Group's and the Company's current period's financial statements is also qualified because of the possible effect of this matter on the comparability of the current period's figures and the comparative information.

ERNST & YOUNG

Qualified Opinion

In our opinion, except for the possible effect on the comparative information of the matter described in *Basis for Qualified Opinion* paragraph above, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2011 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 2011 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2011.

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

Asta Štreimikienė
Auditor's licence
No. 000382

The audit was completed on 11 April 2012.

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation.

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STATEMENTS OF FINANCIAL POSITION

		Group		Company	
	Notes	**As at 31 December 2011**	**As at 31 December 2010**	**As at 31 December 2011**	**As at 31 December 2010**
ASSETS					
Non-current assets					
Property, plant and equipment	5	172,578,689	165,998,075	86,295,419	96,644,280
Investment property	7	4,722,791	4,949,000	4,722,791	4,949,000
Intangible assets	6	14,670,357	12,771,370	218,649	129,213
Investments into subsidiaries	1	-	-	37,950,923	5,358,923
Non-current receivables	8	51,298	61,847	1,701,303	13,347,028
Total non-current assets		**192,023,135**	**183,780,292**	**130,889,085**	**120,428,444**
Current assets					
Inventories	9	24,538,379	19,623,910	5,580,809	9,960,609
Accounts receivable	10	30,452,543	32,357,453	14,029,967	18,038,094
Other assets		1,046,261	1,513,830	365,015	482,562
Cash and cash equivalents	11	2,134,809	1,378,635	71,238	361,192
Total current assets		**58,171,992**	**54,873,828**	**20,047,029**	**28,842,457**
TOTAL ASSETS		**250,195,127**	**238,654,120**	**150,936,114**	**149,270,901**

(cont'd on the next page)

STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Notes	Group		Company	
		As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
EQUITY AND LIABILITIES					
Equity					
Share capital	12	60,000,000	60,000,000	60,000,000	60,000,000
Legal reserve	12	4,221,919	4,145,934	4,221,919	4,145,934
Foreign currency translation reserve	12	(59,777)	(53,388)	-	-
Retained earnings		31,356,702	20,273,624	28,221,313	15,962,278
Equity attributable to equity holders of the parent		95,518,844	84,366,170	92,443,232	80,108,212
Non-controlling interests		2,977,858	2,822,509	-	-
Total equity		**98,496,702**	**87,188,679**	**92,443,232**	**80,108,212**
Liabilities					
Non-current liabilities					
Grants and subsidies	14	8,732,291	8,410,520	8,732,291	8,410,520
Non-current borrowings	15	69,533,156	63,098,888	16,249,993	11,147,580
Financial lease obligations	16	4,052,409	7,156,940	3,626,050	6,813,065
Deferred income tax liability	25	1,790,088	3,927,139	417,613	2,052,891
Non-current employee benefits	17	789,363	730,067	170,095	370,053
Total non-current liabilities		**84,897,307**	**83,323,554**	**29,196,042**	**28,794,109**
Current liabilities					
Current borrowings	15	20,160,668	22,724,791	9,637,793	11,789,141
Current portion of financial lease obligations	16	3,752,086	4,242,460	2,936,417	3,787,762
Income tax payable		130,781	120,376	82,688	3,572
Trade and other payables	18	42,757,583	41,054,260	16,639,942	24,788,105
Total current liabilities		**66,801,118**	**68,141,887**	**29,296,840**	**40,368,580**
TOTAL EQUITY AND LIABILITIES		**250,195,127**	**238,654,120**	**150,936,114**	**149,270,901**

The accompanying notes are an integral part of these financial statements.
The financial statements were approved by the management on 11 April 2012 and signed on its behalf by:

Gintautas Pangonis
General Director

Nina Šilerienė
Finance Director

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2011	2010	2011	2010
Revenue	19	307,677,661	245,785,467	159,277,539	129,742,468
Continuing operations		-	-	*99,607,709*	*80,522,466*
Discontinued operations	*1*	-	-	*59,669,830*	*49,220,002*
Cost of sales	19	(267,046,878)	(213,055,227)	(136,304,010)	(115,663,202)
Continuing operations		-	-	*(86,172,545)*	*(68,758,960)*
Discontinued operations	*1*	-	-	*(50,131,465)*	*(46,904,242)*
Gross profit		**40,630,783**	**32,730,240**	**22,973,529**	**14,079,266**
Other operating income	20	3,996,924	4,545,526	3,894,372	4,330,109
Continuing operations		-	-	*3,894,372*	*4,330,109*
Selling and distribution expenses	22	(13,504,717)	(10,756,558)	(10,984,819)	(9,025,765)
Continuing operations		-	-	*(6,527,456)*	*(5,563,813)*
Discontinued operations	*1*	-	-	*(4,457,363)*	*(3,461,952)*
General and administrative expenses	23	(11,586,579)	(11,129,268)	(6,598,517)	(6,844,537)
Continuing operations		-	-	*(5,216,943)*	*(5,651,907)*
Discontinued operations	*1*	-	-	*(1,381,574)*	*(1,192,630)*
Other operating expenses	21	(252,342)	(430,472)	(231,525)	(150,924)
Continuing operations		-	-	*(231,525)*	*(150,924)*
Profit from operations		**19,284,069**	**14,959,468**	**9,053,040**	**2,388,149**
Finance income	24	155,757	3,857	5,843,585	121,508
Continuing operations		-	-	*3,627*	*121,508*
Discontinued operations	*1*	-	-	*5,839,958*	-
Finance expenses	24	(7,375,881)	(6,309,187)	(1,408,967)	(902,256)
Continuing operations		-	-	*(929,430)*	*(558,562)*
Discontinued operations	*1*	-	-	*(479,537)*	*(343,694)*
Profit before income tax		**12,063,945**	**8,654,138**	**13,487,658**	**1,607,401**
Income tax	25	720,311	(1,111,856)	47,362	(87,692)
Continuing operations		-	-	*47,362*	*(87,692)*
NET PROFIT		**12,784,256**	**7,542,282**	**13,535,020**	**1,519,709**
Continuing operations		-	-	*4,475,171*	*4,202,225*
Discontinued operations	*1*	-	-	*9,059,849*	*(2,682,516)*
Other comprehensive income					
Exchange differences on translation of foreign operations		(6,389)	(53,388)	-	-
Total comprehensive income for the year, net of tax		**12,777,867**	**7,488,894**	**13,535,020**	**1,519,709**
Profit attributable to:					
The shareholders of the Company		12,654,614	7,200,526	13,535,020	1,519,709
Non-controlling interests		129,642	341,756	-	-
		12,784,256	**7,542,282**	**13,535,020**	**1,519,709**
Total comprehensive income attributable to:					
The shareholders of the Company		12,648,225	7,147,138	13,535,020	1,519,709
Non-controlling interests		129,642	341,756	-	-
		12,777,867	**7,488,894**	**13,535,020**	**1,519,709**
Basic and diluted earnings per share	26	0.21	0.12		

The accompanying notes are an integral part of these financial statements.
The financial statements were approved by the management on 11 April 2012 and signed on its behalf by:

Gintautas Pangonis
General Director

Nina Šilerienė
Finance Director

STATEMENTS OF CHANGES IN EQUITY

Group

	Equity attributable to equity holders of the parent						
	Share capital	**Legal reserve**	**Foreign currency translation reserve**	**Retained earnings**	**TOTAL:**	**Non-controlling interest**	**Total equity:**
Balance as at 31 December 2009	**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 27)	-	-	-	(1,200,000)	(1,200,000)	-	**(1,200,000)**
Acquisition of new subsidiaries (Note 6)	-	-	-	-	-	2,480,753	**2480,753**
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**
Net profit for the year	-	-	-	12,654,614	12,654,614	129,642	**12,784,256**
Other comprehensive income (expenses)	-	-	(6,389)	-	(6,389)	-	**(6,389)**
Total comprehensive income (expenses) for the year	-	-	(6,389)	12,654,614	12,648,225	129,642	**12,777,867**
Transfer to legal reserve	-	75,985	-	(75,985)	-	-	**-**
Dividends declared (Note 27)	-	-	-	(1,200,000)	(1,200,000)	(269,844)	**(1,469,844)**
Disposal of controlling interests (Note 1)	-	-	-	(295,551)	(295,551)	295,551	**-**
Balance as at 31 December 2011	**60,000,000**	**4,221,919**	**(59,777)**	**31,356,702**	**95,518,844**	**2,977,858**	**98,496,702**

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STATEMENTS OF CHANGES IN EQUITY (CONT'D)

Company	**Share capital**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total equity:**
Balance as at 31 December 2009	**60,000,000**	**3,995,665**	-	**4,702,451**	**68,698,116**
Net profit for the year	-	-	-	1,519,709	**1,519,709**
Other comprehensive income (expenses)	-	-	-	-	-
Total comprehensive income (expense) for the year	-	-	-	1,519,709	**1,519,709**
Impact of IFRS 1 adoption (Note 3)	-	-	-	11,090,387	**11,090,387**
Dividends declared (Note 27)	-	-	-	(1,200,000)	**(1,200,000)**
Transfer to legal reserve	-	150,269		(150,269)	-
Balance as at 31 December 2010	**60,000,000**	**4,145,934**	-	**15,962,278**	**80,108,212**
Net profit for the year	-	-	-	13,535,020	**13,535,020**
Other comprehensive income (expenses)	-	-	-	-	-
Total comprehensive income (expense) for the year	-	-	-	13,535,020	**13,535,020**
Dividends declared (Note 27)	-	-	-	(1,200,000)	**(1,200,000)**
Transfer to legal reserve	-	75,985	-	(75,985)	-
Balance as at 31 December 2011	**60,000,000**	**4,221,919**	-	**28,221,313**	**92,443,232**

The accompanying notes are an integral part of these financial statements.
The financial statements were approved by the management on 11 April 2012 and signed on its behalf by:

Gintautas Pangonis
General Director

Nina Šilerienė
Finance Director

STATEMENTS OF CASH FLOWS

	Notes	Group 2011	Group 2010	Company 2011	Company 2010
Cash flows from (to) operating activities					
Profit before income tax		12,063,945	8,654,138	13,487,658	1,607,401
Adjustments for non-cash items:					
Depreciation and amortisation net of grant		21,508,136	20,665,974	13,454,114	13,738,038
Finance (income) expenses, net	1,24	7,220,124	6,305,330	(4,434,618)	780,748
Loss (gain) on disposal of property, plant and equipment		(110,479)	(28,945)	(110,479)	13,925
Allowance (reversal) for slow moving inventory, write-off to net realizable value	9	573,362	(59,969)	(95,231)	(79,969)
Property, plant and equipment impairment losses (reversal)		(84,247)	-	(84,247)	-
Allowance for doubtful accounts receivable (reversal)	10	(67,849)	120,959	(401,231)	(1,691)
		41,102,992	35,657,487	21,815,966	16,058,452
Changes in working capital:					
(Increase) decrease in trade receivables and other receivables		1,983,308	(6,874,882)	623,470	(1,072,687)
(Increase) decrease in inventories		(5,487,831)	(4,028,409)	(121,972)	(892,193)
(Increase) decrease in other assets		467,569	(542,196)	109,405	48,329
Increase (decrease) in trade and other payables		1,068,671	8,904,986	(4,083,606)	10,474,098
		(1,968,283)	(2,540,501)	(3,472,703)	8,557,547
Interest (paid)		(3,136,315)	(3,331,828)	(1,265,123)	(859,236)
Income tax (paid)		(2,100,729)	(1,471,673)	(204,650)	-
Net cash flows from (to) operating activities		**33,897,665**	**28,313,485**	**16,873,490**	**23,756,763**

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STATEMENTS OF CASH FLOWS (CONT'D)

		Group		Company	
	Notes	2011	2010	2011	2010
Cash flows from (to) investing activities					
(Acquisition) of non-current assets	5, 6	(29,757,180)	(20,484,979)	(25,021,841)	(18,025,618)
(Acquisition) of investments in subsidiaries (net of cash acquired in the Group)		-	2,347,079	(5,000)	(343,923)
Proceeds from sale of non-current assets		200,895	37,898	200,895	37,898
Grants and subsidies received	14	948,295	8,043,997	948,295	8,043,997
Interest received		3,612	1,475	3,611	119,125
Loans (granted)		-	-	-	(13,017,031)
Net cash flows (to) investing activities		**(28,604,378)**	**(10,054,530)**	**(23,874,040)**	**(22,841,629)**
Cash flows from (to) financing activities					
Dividends (paid)		(1,469,844)	(997,809)	(1,200,000)	(997,809)
Loans (repaid)		(18,738,269)	(21,096,310)	(8,661,095)	(4,627,975)
Proceeds from borrowings		20,191,269	10,420,729	19,991,269	10,420,729
Finance lease (payments)		(4,520,269)	(5,668,532)	(3,419,578)	(5,163,545)
Net cash flows (to) financial activities		**(4,537,113)**	**(17,341,922)**	**6,710,596**	**(368,600)**
Net increase in cash and cash equivalents		**756,174**	**917,034**	**(289,954)**	**202,611**
Cash and cash equivalents at the beginning of the year		**1,378,635**	**461,601**	**361,192**	**158,581**
Cash and cash equivalents at the end of the year		**2,134,809**	**1,378,635**	**71,238**	**361,192**
Supplemental information of cash flows:					
Non-cash investing activity:					
Property, plant and equipment acquisitions financed by financial lease		847,513	139,373	403,054	38,185
Payable for the property, plant and equipment outstanding as at year end		2,663,900	2,223,741	2,455,103	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 2012 and signed on its behalf by:

Gintautas Pangonis
General Director

Nina Šilerienė
Finance Director

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, fibreboard, 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 2011 and on 31 December 2010 AB Grigiškės group consists of AB Grigiškės and the following subsidiaries (hereinafter referred to as „the Group"):

	2011				2010			
Name	**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)**	**Address**	**Principal activity**
Subsidiaries directly controlled by the Company:								
UAB Baltwood	100%	27,592,000	(542,703)	3,495,960	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 2011 and 2010.
UAB Naujieji Verkiai	100%	-	5,921	(68,047)	100%	-	Popieriaus Str. 15, Vilnius, Lithuania	Building and development of real estate. No operations in 2010, operations started in 2011.
UAB AGR Prekyba	100%	10,343,923	5,226,320	14,329,383	100%	343,923	Vilniaus Str. 10, Grigiškės, Vilniaus Mun., Lithuania	Investment activities and corporate governance
UAB Grigiškių energija	50%	5,000	(1,583)	8,417	-	-	Vilniaus Str. 14, Grigiškės, Vilniaus Mun., Lithuania	Heat production and sale. No operations in 2011.
		37,950,923				5,358,923		
Subsidiaries indirectly controlled by the Company:								
AB Klaipėdos Kartonas	95.78 %	-	5,510,547	50,084,296	97.96%	-	Nemuno Str. 2, Klaipėda, Lithuania	Manufacturing of raw materials for production of corrugated board – test liner and fluting, production of paper honeycomb used in furniture industry.
UAB Klaipėda Recycling	71.74 %	-	42,739	142,739	97.96%	-	Nemuno Str 2, Klaipėda, Lithuania	Waste-paper procurement. No operations in 2010, operations started in 2011.
OAO Mena Pak	93.79 %	-	(426,228)	(2,636,163)	82.01%	-	Koshevovo Str. 6, Chernigovo dstr., Mena, Ukraine	Manufacturing of corrugated board, packing from corrugated board.

1. General information (cont'd)

Changes in the Group in 2011

In 2011 AB Grigiškės established a subsidiary UAB Grigiškių energija half of which was sold to third parties in the same year. The Company retained control over subsidiary as the management of the subsidiary was assigned by the Company. The company did not perform any operations in 2011.

In order to increase efficiency of manufacturing processes of the Company, to optimize the acquisition of raw materials, production supplies, production and logistics processes, to reduce costs and increase profitability of business segments, on the 1 December 2011 the Board of AB Grigiškės decided to transfer one of segments of AB Grigiškės activities – the production of wood fibre board – to 100% owned subsidiary UAB Baltwood, in exchange for newly issued shares of the subsidiary.

Along with the activity transferred AB Grigiškės passed the property, rights and obligations relating to processing of the wood fibre boards, including but not limited to, real estate and equipment needed the activities to conduct, commitment to employees and other rights and obligations arising from existing agreements.

After the transfer of a part of activities of AB Grigiškės both of mentioned companies will continue to operate at the same address as before the transfer – at Vilniaus str. 10, Grigiškės, Vilnius. The main activity of AB Grigiškės will remain production of tissue paper products and corrugated cardboard packaging production and UAB Baltwood will focus on activities related to wood processing, here will continue to work skilled workers which were employed in AB Grigiškės in activity transferred.

The Board of AB Grigiškės believes that the fact of transferring of the part of activities of AB Grigiškės will not have significant impact on financial indicators of the Group of AB Grigiškės. However, it will help to optimize the management of Group's activities, which is likely to result in a higher profitability of activities and return to shareholders.

Implementing the decision of 1 December, 2011 of the Board of AB Grigiškės to transfer one of segments of AB Grigiškės activities – the production of wood fibre board – to 100% owned subsidiary UAB Baltwood, in exchange for newly issued shares of the company, on 31 December, 2011 AB Grigiškės and UAB Baltwood signed an agreement of transferring of the part of activities. Transfer date for activities is 31 December 2011.

The value of Company's net assets related to activities transferred was equal to LTL 16,747 thousand, value of subsidiary's shares received was equal to LTL 22,587 thousand. The difference of LTL 5,840 thousand between net assets and shares received was accounted as financial income of the Company (included into table below). The effect of activities transfer was eliminated at the Group level.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* was applied for accounting for transferred activities.

The results of transferred activity to subsidiary UAB Baltwood are presented below:

	2011	2010
Revenue	59,669,830	49,220,002
Cost of sales	(50,131,465)	(46,904,242)
Gross profit	**9,538,365**	**2,315,760**
Selling expenses	(4,457,363)	(3,461,952)
General and administrative expenses	(1,381,574)	(1,192,630)
Finance income	5,839,958	-
Finance expenses	(479,537)	(343,694)
Profit (loss) for the year from discontinued operations	**9,059,849**	**(2,682,516)**

Income and deferred taxes charged on discontinued operations were not significant for 2011 and 2010.

1. General information (cont'd)

The net cash flows of the transferred activities are the following:

	2011	2010
Operating	7,910,457	1,587,557
Investing	(4,614,050)	(16,261,146)
Financing	(479,537)	(343,694)
Net cash inflow (outflow)	**2,816,870**	**(15,017,283)**

The net assets of transferred activity to subsidiary UAB Baltwood are presented below:

	Carrying value
Property, plant and equipment	21,326,702
Intangible assets	1,729,992
Inventories	4,977,946
Trade receivables	4,057,203
Other assets	1,382,552
Total assets	**33,474,395**
Borrowings	9,664,242
Deferred income tax liability	979,791
Trade payables	3,932,926
Other liabilities	2,150,394
Total liabilities	**16,727,353**
Total net assets	**16,747,042**

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:

Company name	Shareholder	Share of the stock held by the Group as at acquisition date
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 6.

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. During the reorganisation AB Klaipėdos Kartonas acquired its own shares and decreased its share capital by the amount of acquired shares in 2011. Changed bylaws of AB Klaipėdos Kartonas were registered as of 15 July 2011 and resulted in disposal of controlling interest at the Group level.

1. General information (cont'd)

As at 31 December 2011 the number of employees of the Group was 997 (as at 31 December 2010 – 940). As at 31 December 2011 the number of employees of the Company was 283 (as at 31 December 2010 – 448).

The Company's management authorised these financial statements on 11 April 2012. 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

The financial statements for the year 2010 have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (hereinafter the EU), except that, in order to align the measurement of its property, plant and equipment with the provisions of IFRS, the management treated the date of transition to IFRS – 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.

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 2.8 below).

The current year financial statements of the Group and the Company with an exception of above mentioned discrepancy in comparative information, are prepared in accordance with International Financial Reporting Standards effective as of 31 December 2011 that have been adopted for use in European Union.

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

Adoption of new and/or changed IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The Group and the Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IAS 24 Related Party Disclosures (Amended)
- IAS 32 Classification on Rights Issues (Amended)
- Improvements to IFRSs (May 2010)

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Except for what is written below, new and / or changed standards and their interpretations did not have any impact on the Group and the Company:

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively. The effect of this amendment is evaluated in Note 28.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendment resulted in changes to accounting policies, but no impact on the financial position or performance of the Group and the Company:

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. In the future the Group and the Company will amend the accounting policy when the component of other comprehensive income will appear.

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group and the Company:

- IFRS 1 First-time adoption
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments - Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

<u>Standards issued but not yet effective</u>

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

- **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income**
  The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets**
  The amendment is effective for annual periods beginning on or after 1 January 2012.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. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- **IAS 19 Employee Benefits (Amended)**
  The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IAS 27 Separate Financial Statements (Revised)**
  The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Company is in the process of assessing the impact of this amendment on the financial position or performance of the Company.

- **IAS 28 Investments in Associates and Joint Ventures (Revised)**
  The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The standard will not affect the Group's and Company's financial statements because the Group and the Company has no such investments.

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**
  The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements**
  The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**
  The amendment is effective for annual periods beginning on or after 1 January 2013.The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- **IFRS 9 Financial Instruments - Classification and Measurement**
  The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities at fair value trough profit or loss. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRS 10 Consolidated Financial Statements**
  The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRS 11 Joint Arrangements**
  The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. This standard will not affect the Group's and the Company's financial statements because the Group and the Company has no share in joint arrangement entities.

- **IFRS 12 Disclosures of Involvement with Other Entities**
  The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRS 13 Fair Value Measurement**
  The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- **IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine**
  The interpretation is effective for annual periods beginning on or after 1 January 2013.This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (striping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. Interpretation will not have impact on the Group's and Company's financial statements, as the Group and the Company are not involved in the mining activity.

All the above mentioned new IFRSs and IFRICs and their amendments will be adopted on the date they become effective and endorsed by the EU.

2.2. Going concern

These financial statements for the year ended 31 December 2011 are prepared under the assumption that the Group and the Company will continue as a going concern. The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. As of 31 December 2011 current liabilities of the Group and the Company exceeded its current assets by LTL 8,629 thousand and LTL 9,250 thousand respectively.

The management's plans to resolve the liquidity situation are related to further improvement of operational performance of the Group and the Company and rescheduling repayment terms of current liabilities.

The Company has prepared a forecast of the Group's operations for 2012 which allow the management to be confident about the Group's improved operational performance.

Due to the above reasons the management of the Company believes that the Group and the Company will be able to continue as a going concern for a period of not less than 1 year.

2.3. 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.

Total comprehensive income within a subsidiary is 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.

2. Accounting policies (cont'd)

2.4. Business combinations and goodwill

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.

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 (refer to note 2.23 Impairment of non-financial assets).

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.

2.5. 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. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction.

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. Accounting policies (cont'd)

2.6. Investments in subsidiaries (the Company)

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

As described in Note 1, at the end of the year the Company transferred a segment of its operations to one of its 100% subsidiaries. From the point of view of separate financial statements of AB Grigiskės this is in kind contribution transaction to the existing subsidiary. There is no guidance under IFRS on how to account for business contributions by the parent in its separate financial statements.

The Company exercised judgment to determine an appropriate accounting treatment. The policy followed was to recognise an increased investment in the subsidiary based on the fair value of the additional shares received and therefore recognize a gain/loss on disposal of the net assets of the segment transferred to the subsidiary (measured as the difference between fair value of shares received and the carrying values of the assets given up).

2.7. 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 – 3 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.

2.8. Property, plant and equipment

Property, plant and equipment are stated at cost (or deemed cost – see below) 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.

As at 31 December 2010 according to the exception available under IFRS 1, part of buildings, acquired before 1 January 1996, were measured at fair values, determined as of that date by independent property valuator, and these values were 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 (see below).

After 31 December 2011 all property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

2. Accounting policies (cont'd)

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

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.

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 – 10 years
Vehicles	6 – 8 years
Other equipment and other assets	4 – 5 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)

2.9. 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 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.

2.10. 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 (nil) 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)

2.11. 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 financial instruments at fair value through profit or loss as at 31 December 2011 and 2010.

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 does not have any held-to-maturity investments as at 31 December 2011 and 2010.

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 – refer to Note 2.23 for measurement of impairment losses. 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 2011 and 2010.

2.12. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Accounting policies (cont'd)

2.13. 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.

2.14. 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. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory has been fully written-off.

2.15. 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)

2.16. 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 significant borrowing costs matching the capitalisation criteria in 2011 and in 2010.

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.

2.17. Financial lease and operating lease

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Financial lease – Group and the Company as a lessee

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.

Operating lease – the Group and the Company as lessee

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognised as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

2. Accounting policies (cont'd)

2.17. Financial lease and operating lease (cont'd)

Operating lease – the Group and the Company as lessor

Assets leased under operating lease in the balance sheet of the Group and the Company are accounted for depending on their nature. Income from operating lease is recognised as other income in the statement of income within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognised using straight-line method during the lease period by reducing the lease income. Initial direct expenses incurred in order to generate lease income are included in the carrying value of the leased asset.

2.18. 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 month salary.

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.

2.19. Financial guarantee contracts

Financial guarantees provided for the liabilities of the sister companies (i.e. companies controlled by the same parent) during the initial recognition are accounted at estimated fair value as distribution to shareholder and financial liability in the balance sheet. Subsequent to initial recognition this financial liability is amortised and recognised as income depending on the related amortisation / repayment of the sister company's financial liability to the bank. If there is a possibility that the sister company may fail to fulfil its obligations to the bank, a financial liability of the Company is accounted for at the higher of amortised value and the value estimated according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

2.20. Grants and subsidies

Grants and subsidies (hereinafter "grants") 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 profit and loss gradually according to the depreciation rate 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.

2.21. Trade and other payable

Trade payables are initially measured at fair value and are subsequently measured at amortized cost, using the effective interest rate method.

The nominal or cost value of the other payables is assumed to appropriate their fair value.

2. Accounting policies (cont'd)

2.22. 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.

15% income tax rate has been established starting from 1 January 2010 for companies operating in Republic of Lithuania. Standard income tax rate in Ukraine was 25% until 1 April 2011, after 1 April 2011 – 23% (in 2010 – 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.

2.23. 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. Group entity UAB Baltwood is engaged in production of wooden houses. When product is ready, the contractor approves the order and makes payment, while product is brought to the contractor only after separate notice. The entity recognises income and expenses at the moment when contractor gives notice that order is completed as it is stated in the agreement that risks related to the product are then transferred to contractor.

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.

Interest income is recognised on an accrual basis (using the effective interest rate). Interest income is included in financial and investing activities result in statement of comprehensive income.

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

2. Accounting policies (cont'd)

2.24. 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.

Impairment of non-financial assets

Non-financial 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.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.25. 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 2.8, 2.9, 5, 7), amortization (Note 2.7 and Note 6), valuation of buildings (Note 2.8, Note 5), non-current employee benefits (Note 2.18 and Note 17), impairment evaluation of goodwill (Note 2.4, 6), deferred tax asset (Note 2.21, Note 25) and other assets (Note 2.23, 9 and 10). 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.

2.26. 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. Accounting policies (cont'd)

2.27. Comparative information

Where necessary comparative figures have been adjusted to conform to changes in presentation in the current year. Therefore, amounts of property, plant and equipment and intangible assets were amended by including goodwill and investment property (Note 19), comparative figures of Statement of Cash flows and certain risk management notes were changed to conform with current year presentation.

2.28. Discontinued (transferred) operations

Current year and comparative year revenue, expenses and result after taxes is presented in two lines in Company's statement of comprehensive income, separately disclosing revenue, expenses and results after taxes of transferred (discontinued) and continuing operations (Note 1).

2.29. 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.

3. First – time adoption of International Financial Reporting Standards

As it is mentioned in Note 2, 2010 financial statements were prepared in accordance with IFRS are the first financial statements in which all IFRS were adopted by the Company, except that the date of full transition has been established as 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 2.8. Presentation of impact on equity of adopting IFRS to buildings as at 31 December 2010 is presented below:

	Equity
Impact of IFRS 1 adoption:	
Revaluation of buildings at deemed cost (Note 5)	13,047,594
Deferred tax liability related to deemed cost accounting for buildings (Note 25)	(1,957,207)
Total	11,090,387

4. Financial assets and liabilities and risk management

<u>Credit risk</u>

The Group and the Company does not have any significant concentration of trading counterparties. Group receivables from two major customers as at 31 December 2011 amounted to 9.13% and 4.61% respectively (13.72% and 8.82% as at 31 December 2010) of the total Group's trade receivables. Company's receivables from two major customers as at 31 December 2011 amounted to 16.71% and 6.19% respectively (14.28% and 6.48% as at 31 December 2010) 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 and cash and cash equivalents recognised at the date of the statement of financial position. Credit risk or risk that a counterparty will not fulfil its obligations, is controlled by credit terms and monitoring procedures, using services of external credit insurance and debt recovery agencies.

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

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2011 and 2010 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	-	3,256,078	18,852,885	54,636,443	19,837,537	96,582,943
Financial lease obligations	-	927,836	3,044,439	4,105,451	-	8,077,726
Trade payables	-	32,560,874	-	-	-	32,560,874
Other current liabilities	998,232	2,393,075	-	-	-	3,391,307
Balance as at 31 December 2011	**998,232**	**39,137,863**	**21,897,324**	**58,741,894**	**19,837,537**	**140,612,850**
Interest bearing borrowings	3,859,292	5,708,956	13,675,239	38,165,663	26,308,694	87,717,844
Financial lease obligations	-	1,494,562	2,923,864	7,405,294	-	11,823,720
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**	**45,570,957**	**26,308,694**	**134,832,325**

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2011 and 2010 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	-	774,032	9,423,710	17,054,209	-	27,251,951
Financial lease obligations	-	819,865	2,282,070	3,666,593	-	6,768,528
Payables to related parties	-	1,843,004	-	-	-	1,843,004
Trade payables	-	11,093,937	-	-	-	11,093,937
Other current liabilities	442,939	1,253,465	-	-	-	1,696,404
Balance as at 31 December 2011	**442,939**	**15,784,303**	**11,705,780**	**20,720,802**	**-**	**48,653,824**
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	-	10,958,828
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**

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

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 15 and 16). There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as at 31 December 2011 and 2010.

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.

2011	Increase/decrease in basis points	Effect on the profit before the income tax
EUR	+100	(656,543)
EUR	-100	656,543
LTL	+100	(309,952)
LTL	-100	309,952
2010		
EUR	+100	(642,285)
EUR	-100	642,285
LTL	+100	(240,030)
LTL	-100	240,030

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.

2011	Increase/decrease in basis points	Effect on the profit before the income tax
EUR	+100	(133,005)
EUR	-100	133,005
LTL	+100	(191,497)
LTL	-100	191,497
2010		
EUR	+100	(20,653)
EUR	-100	20,653
LTL	+100	(208,714)
LTL	-100	208,714

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

Foreign exchange risk

The Company's monetary assets and liabilities as at 31 December 2011 and 2010 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 2011 were as follows (equivalent in LTL):

Group	UAH	USD	EUR	LTL	Other
Receivables	2,061,118	-	12,664,224	15,106,042	153,167
Cash and cash equivalents	176,701	-	437,659	1,520,450	-
Borrowings and financial lease obligations	-	848,781	65,654,337	30,995,201	-
Payables	628,109	69,391	6,028,003	37,300,467	-

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

Group	UAH	USD	EUR	LTL	Other
Receivables	1,980,711	2,532	10,802,511	19,571,699	-
Cash and cash equivalents	-	-	608,145	770,490	-
Borrowings and financial lease obligations	-	1,696,450	64,510,578	31,016,051	-
Payables	360,340	693	4,749,303	39,425,897	409,894

The following table demonstrates the sensitivity to a reasonably possible change in currency exchange rates, with all other variables held constant, of the Group's profit before tax:

2011	Increase/decrease in basis points	Effect on the profit before the income tax
USD	+10	(91.817)
USD	-10	91.817
UAH	+10	160,971
UAH	-10	(160,971)
2010		
USD	+10	(169,461)
USD	-10	169,461
UAH	+10	162,037
UAH	-10	(162,037)

Fair value of financial instruments

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

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.

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

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	
	2011	**2010**	**2011**	**2010**
Financial assets				
Cash	2,134,809	1,378,635	2,134,809	1,378,635
Receivables from related parties (including loans granted)	1,254	10,944	1,254	10,944
Trade receivables and other receivables	30,451,289	32,346,509	30,451,289	32,346,509
Financial liabilities				
Interest bearing loans and borrowings	89,693,824	85,823,679	89,693,824	85,823,679
Financial lease obligations	7,804,495	11,399,400	7,804,495	11,399,400
Trade payables	32,470,786	31,500,969	32,470,786	31,500,969
Payables to related parties	90,088	23,056	90,088	23,056
Other current liabilities	2,932,766	3,263,036	2,932,766	3,263,036

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	
	2011	**2010**	**2011**	**2010**
Financial assets				
Cash	71,238	361,192	71,238	361,192
Receivables from related parties (including loans granted)	3,781,079	14,095,133	3,781,079	14,095,133
Trade receivables	10,246,888	17,289,989	10,246,888	17,289,989
Non-current receivables	1,701,303	13,347,028	1,701,303	13,347,028
Financial liabilities				
Interest bearing loans and borrowings	25,887,786	22,936,721	25,887,786	22,936,721
Financial lease obligations	6,562,467	10,600,827	6,562,467	10,600,827
Trade payables	11,093,937	17,517,298	11,093,937	17,517,298
Payables to related parties	1,843,004	2,625,855	1,843,004	2,625,855
Other current liabilities	1,462,220	1,695,188	1,462,220	1,695,188

5. Property, plant and equipment

Group	Buildings and structures	Machinery and equipment	Vehicles	Other assets	Construction in progress and prepayments	TOTAL
Cost:						
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 6)	34,185,265	19,478,730	664,901	7,735,093	2,671,778	64,735,767
Additions	212,118	2,148588	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 and write-offs	(16,780)	(1,268,208)	(464,191)	(279,953)	-	(2,029,132)
Transfer from construction in progress to property, plant and equipment	-	2,692,540	-	-	(2,692,540)	-
Reclassifications	6,378,936	1,114,498	(527,250)	(6,966,184)	-	-
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
Additions	924,231	7,172,825	752,379	795,399	19,380,759	29,025,593
Disposals and write-offs	(444,090)	(9,488,987)	(459,772)	(718,210)	-	(11,111,059)
Transfer**	120,303	472,369	-	(112,324)	-	480,348
Transfer from construction in progress to property, plant and equipment and intangibles	2,113,204	18,493,683	52,181	-	(20,681,632)	(22,564)
Reclassifications	1,806,071	(1,742,087)	(79,958)	15,974		-
Effect of foreign currency translation	95,462	70,774	5,937	7,091	(2,641)	176,623
Balance as at 31 December 2011	80,103,033	172,044,909	5,766,950	4,324,548	16,036,077	278,275,517
Accumulated depreciation and impairment:						
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 and write-offs	(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
Depreciation	3,495,213	16,919,249	721,677	629,334	-	21,765,473
Impairment loss/(reversal)	(6,250)	(77,997)	-	-	-	(84,247)
Disposals and write-offs	(85,948)	(9,033,714)	(439,922)	(713,856)	-	(10,273,440)
Transfer**	(16,998)	501,131	-	(3,780)	-	480,353
Reclassifications	272,517	(226,041)	(62,449)	15,973	-	-
Effect of foreign currency translation	29,163	46,123	1,162	3,740	-	80,188
Balance as at 31 December 2011	8,873,022	90,085,685	3,920,157	2,817,964	-	105,696,828
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**
Net book value as at 31 December 2011	**71,230,011**	**81,959,224**	**1,846,793**	**1,506,584**	**16,036,077**	**172,578,689**

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

** Transfer mainly relates to the elimination of accrued depreciation against acquisition costs of revalued properties which had to be done as at 31 December 2009 (at the revaluation date), however, it was not done while presenting acquisition cost and depreciation of disposed and written off properties during 2010. This elimination does not affect Group's net book value of property, plant and equipment as at 31 December 2011.

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

Company	Buildings and structures	Machinery and equipment	Vehicles	Other assets	Construction in progress and prepayments	TOTAL:
Cost:						
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 and write-offs	(12,361)	(934,339)	(328,957)	(159,612)	-	(1,435,269)
Transfer from construction in progress to property, plant and equipment	-	40,862	-	-	(40,862)	-
Reclassifications	(117,266)	-	-	117,266	-	-
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
Additions	798,652	6,433,221	473,473	372,354	15,670,412	23,748,112
Disposals and write-offs	(39,397)	(9,462,264)	(459,771)	(713,328)	-	(10,674,760)
Transfer to subsidiary (Note 1)	(16,884,235)	(28,483,844)	(1,637,007)	(794,068)	-	(47,799,154)
Transfer from construction in progress to property, plant and equipment	2,113,204	14,584,795	-	-	(16,697,999)	-
Reclassifications	1,806,071	(1,742,087)	(79,958)	15,974	-	-
Balance as at 31 December 2011	20,320,010	102,043,996	1,998,677	2,307,655	15,696,750	142,367,088
Accumulated depreciation and impairment:						
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 and write-offs	(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
Depreciation	1,672,866	11,311,721	475,123	306,003	-	13,765,713
Impairment loss/(reversal)	(6,250)	(77,997)	-	-	-	(84,247)
Disposals and write-offs	(39,395)	(9,015,063)	(439,923)	(709,021)	-	(10,203,402)
Transfer to subsidiary (Note 1)	(1,790,985)	(24,087,082)	(1,413,911)	(563,027)	-	(27,855,005)
Reclassifications	272,517	(226,041)	(62,449)	15,973	-	-
Balance as at 31 December 2011	3,157,501	49,885,670	1,203,696	1,824,802	-	56,071,669
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**
Net book value as at 31 December 2011	**17,162,509**	**52,158,326**	**794,981**	**482,853**	**15,696,750**	**86,295,419**

* 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 2011 and 2010 has reviewed the classification of property, plant and equipment in acquired subsidiaries in 2011 and 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.

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

As at 31 December 2011 and 2010, the net book value of the Group's and Company's property, plant and equipment acquired under finance lease was as follows:

	Group		Company	
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Machinery and equipment	11,657,803	15,871,346	9,819,983	14,486,522
Vehicles	843,209	871,904	487,463	611,977
	12,501,012	**16,743,250**	**10,307,446**	**15,098,499**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2011 amounts to LTL 21,765 thousand and LTL 13,766 thousand, respectively (LTL 20,651 thousand and LTL 13,770 thousand in the year 2010, respectively). Amounts of LTL 421 thousand and LTL 182 thousand for the year 2011 (LTL 427 thousand and LTL 220 thousand for the year 2010, respectively) have been included into general and administrative expenses in the Group's and the Company's statement of comprehensive income, respectively. LTL 262 thousand and LTL 148 thousand for the year 2011 (LTL 135 thousand and LTL 61 thousand in 2010) 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.

As at 31 December 2011, the part of the Group's and the Company's property, plant and equipment with a net book value of LTL 68,466 thousand and LTL 17,118 thousand, respectively (31 December 2010 – LTL 94,522 thousand and LTL 32,990 thousand, respectively) is pledged as a security for repayment of the loans granted by banks (Note 15).

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 23,670 thousand and LTL 22,519 thousand, respectively, were fully depreciated as at 31 December 2011 (LTL 50,508 thousand and LTL 35,852 thousand as at 31 December 2010, 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	2011			2010		
	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
Construction of the building for the corrugated cardboard production, industrial equipment relocation and installation of a new corrugating equipment	13,051,984	22,000,000	2012	-	-	-
Other projects	2,984,093	6,350,000	-	1,065,195	2,290,000	2011
TOTAL:	**16,036,077**	**28,350,000**	-	**17,339,591**	**21,290,000**	-

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

Company

	2011			2010		
	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
Construction of the building for the corrugated cardboard production, industrial equipment relocation and installation of a new corrugating equipment	13,051,984	22,000,000	2012	-	-	-
Other projects	2,644,766	6,000,000	-	449,941	535,000	2011
TOTAL:	**15,696,750**	**28,000,000**	-	**16,724,337**	**19,535,000**	-

6. 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)**

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

6 Intangible assets (cont'd)

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.

For the purpose of impairment evaluation, the goodwill as at 31 December 2011 and 2010 was allocated to AB Klaipėdos Kartonas cash generating unit. The recoverable amount of cash generating unit as at 31 December 2011 and 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 2011 and 2010 are described further.

The forecasted revenues were estimated based on the management assumptions as at 31 December 2011 and 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 1% 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 main assumptions applied in goodwill impairment evaluation were the same in 2011 and 2010.

The assessment of the recoverable amount of the CGU as at 31 December 2011 and 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 2011 and 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.

6 Intangible assets (cont'd)

Other intangible assets

Group

	Land lease right	Licenses, patents	Software	Other assets and prepayments	TOTAL:
Cost:					
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
Additions	-	-	277,681	1,741,578	2,019,259
Disposals, write-offs	-	-	(8,776)	-	(8,776)
Transfer from property, plant and equipment	-	-	22,564	-	22,564
Reclassifications	-	4,550	33,098	(37,648)	-
Effect of foreign currency translation	-	-	143	-	143
Balance as at 31 December 2011	2,400,000	60,788	1,229,519	1,762,723	5,453,030
Accumulated amortization:					
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
Amortization	26,667	-	112,588	3,723	142,978
Disposals, write-offs	-	-	(8,775)	-	(8,775)
Reclassifications	-	4,549	(4,549)	-	-
Balance as at 31 December 2011	222,222	60,767	849,334	12,451	1,144,774
Net book value as at 31 December 2010	**2,204,445**	**20**	**154,739**	**50,065**	**2,409,269**
Net book value as at 31 December 2011	**2,177,778**	**21**	**380,185**	**1,750,272**	**4,308,256**

6 Intangible assets (cont'd)

Company	Licenses, patents	Software	Other assets and prepayments	TOTAL:
Cost:				
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
Additions	-	166,567	1,741,578	1,908,145
Disposals, write-offs	-	(8,776)	-	(8,776)
Transfer to subsidiary (Note 1)	-	-	(1,729,992)	(1,729,992)
Reclassifications	4,550	33,098	(37,648)	-
Balance as at 31 December 2011	60,788	994,198	32,731	1,087,717
Accumulated amortization:				
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)
Balance as at 31 December 2010	56,218	724,182	8,727	789,127
Amortization	-	84,992	3,724	88,716
Disposals, write-offs	-	(8,775)	-	(8,775)
Reclassifications	4,549	(4,549)	-	-
Balance as at 31 December 2011	60,767	795,850	12,451	869,068
Net book value as at 31 December 2010	**20**	**79,127**	**50,066**	**129,213**
Net book value as at 31 December 2011	**21**	**198,348**	**20,280**	**218,649**

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 447 thousand and LTL 325 thousand, respectively as at 31 December 2011 was fully amortised (LTL 114 thousand and LTL 24 thousand as at 31 December 2010, respectively) but was still in use.

As at 31 December 2011 and 31 December 2010, the Group's land lease rights with a carrying value of LTL 2,178 thousand are pledged as a security for repayment of the loan granted by banks (Note 15).

7. Investment property

	Buildings
Cost:	
Balance as at 31 December 2010	4,949,000
Additions	-
Balance as at 31 December 2011	4,949,000
Accumulated depreciation:	
Balance as at 31 December 2010	-
Depreciation	226,209
Balance as at 31 December 2011	226,209
Net book value as at 31 December 2010	**4,949,000**
Net book value as at 31 December 2011	**4,722,791**

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.

As at 31 December 2011 and 2010 investment property fair value approximates its net book value.

8. Non-current receivables

As at 31 December 2010 non-current receivables of 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 28).

In 2011 the Company as the sole shareholder, increased share capital of UAB AGR Prekyba by LTL 10,000 thousand. The payment for the newly issued shares was made by netting the payable amount for shares with receivable from UAB AGR Prekyba.

As at 31 December 2011 non-current receivables of the Company mainly includes long-term part of receivable from UAB Baltwood (Note 28).

9. Inventories

	Group		Company	
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Raw materials	9,755,741	7,729,979	2,687,331	3,505,847
Work in progress	5,093,332	4,005,095	1,757,314	2,479,607
Finished goods	10,497,897	8,571,378	1,861,285	4,835,824
Goods in transit	625,440	178,127	40,135	-
	25,972,410	**20,484,579**	**6,346,245**	**10,821,278**
Less: net realisable value allowance	(1,434,031)	(860,669)	(765,436)	(860,669)
TOTAL:	**24,538,379**	**19,623,910**	**5,580,809**	**9,960,609**

The initial cost value of the Group's and the Company's inventories accounted for at net realisable value as at 31 December 2011 amounted to LTL 1,866 thousand and LTL 765 thousand, respectively (31 December 2010 - LTL 861 thousand and LTL 861 thousand, respectively). Change in allowance for inventories for the year 2011 and 2010 has been included into general and administrative expenses.

As described in the Note 15, as at 31 December 2011 the Group and the Company have pledged inventory with a carrying value LTL 10,000 thousand and LTL 5,581 thousand respectively (31 December 2010 – LTL 10,000 thousand and 8,000 thousand, respectively) as a collateral to the banks for the loans received.

10. Accounts receivable

	Group		Company	
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Trade receivables, gross	27,018,143	31,042,163	13,169,055	17,586,263
Other receivables, gross	4,130,404	2,351,722	1,015,025	1,279,754
	31,148,547	**33,393,885**	**14,184,080**	**18,866,017**
Less: allowance for doubtful trade receivables	(696,004)	(1,036,432)	(154,113)	(827,923)
Total amounts receivable within one year:	**30,452,543**	**32,357,453**	**14,029,967**	**18,038,094**

Change in allowance for doubtful trade receivables for the year 2011 and 2010 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. For further analysis of credit risk please refer to Note 4.

As at 31 December 2011 and 2010 Group's and the Company's trade receivables were pledged to banks as a collateral for the loans received (Note 15).

Information on receivables from related parties is presented under Note 28.

10. Accounts receivable (cont'd)

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
Balance as at 1 January	**1,036,432**	**885,473**	**827,923**	**829,614**
Charge for the year	525,512	208,509	154,113	-
Reversed during the year	(593,361)	(57,550)	(555,344)	(1,691)
Receivables written off as uncollectible	(272,579)	-	(272,579)	-
Balance as at 31 December	**696,004**	**1,036,432**	**154,113**	**827,923**

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					
	Trade receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 360 days**	**More than 360 days**	**Total**
2010	25,598,820	5,057,781	1,035,374	169,774	495,704	-	32,357,453
2011	24,493,518	4,682,197	701,177	117,442	458,269	-	30,452,543

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					
	Trade receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 360 days**	**More than 360 days**	**Total**
2010	12,996,816	3,180,594	694,379	169,774	50,889	945,642[1]	18,038,094
2011	11,356,591	1,663,492	157,217	301,093	551,574	-	14,029,967

[1] As at 31 December 2010 the major part of overdue trade receivable by the Company was a receivable from Company's subsidiary UAB Baltwood, part of which and newly formed amount was reclassified to non-current receivables in 2011 (Note 8). As the Group 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 for the receivable was accounted by the Company in 2011 and 2010.

11. Cash and cash equivalents

	Group		Company	
	As at 31 December 2011	**As at 31 December 2010**	**As at 31 December 2011**	**As at 31 December 2010**
Cash at bank	2,097,414	1,339,035	43,517	332,429
Cash on hand	37,395	39,600	27,721	28,763
TOTAL:	**2,134,809**	**1,378,635**	**71,238**	**361,192**

As at 31 December 2011 and 2010 the major part of bank accounts of the Group and the Company are pledged to banks for loans, as described further in Note 15. As at 31 December 2011 and 2010 there were no restrictions on use of cash balances held in the pledged accounts.

12. Share capital and reserves

Share capital

The share capital of the Company was LTL 60,000 thousand as at 31 December 2011 and as at 31 December 2010. 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 2011 and 2010.

As at 31 December 2011 and 31 of December 2010 the shareholders of the Company were:

	2011		2010	
	Number of shares	**Proportion of ownership, %**	**Number of shares**	**Proportion of ownership, %**
Lithuanian legal entities	29,839,973	49.73	29,830,153	49.72
Lithuanian individuals	21,827,685	36.38	23,083,848	38.47
Foreign legal entities	8,124,108	13.54	6,870,407	11.45
Foreign individuals	208,234	0.35	215,592	0.36
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
Mišeikienė Irena Ona	8,731,686	14.55	8,731,686	14.55
TOTAL:	**43,643,881**	**72.74**	**43,643,881**	**72.74**

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 2.5.).

13. 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 2011 and 2010.

13. 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 2011 and 2010 the Company was not in breach of the above mentioned requirement.

The subsidiary UAB Baltwood as at 31 December 2011 and 2010 was not in compliance with the requirement. UAB Baltwood became compliant with the requirement in 2012 when after transfer of hardboard production activities (Note 1), new by-laws were approved and increase of authorised capital of subsidiary up to LTL 32,637 thousand was registered on 1 March 2012.

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	
	2011	2010	2011	2010
Non-current liabilities (excluding grants and deferred tax liability)	74,374,928	70,985,895	20,046,138	18,330,698
Current liabilities	66,801,118	68,141,887	29,296,840	40,368,580
Liabilities	**141,176,046**	**139,127,782**	**49,342,978**	**58,699,278**
Equity	**98,496,702**	**87,188,679**	**92,443,232**	**80,108,212**
Debt to equity ratio	**143%**	**160%**	**53%**	**73%**

14. Grants and subsidies

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

Balance as at 31 December 2009	461,938
Received	8,043,997
Amortisation	(95,415)
Balance as at 31 December 2010	**8,410,520**
Received	948,295
Amortisation	(626,524)
Balance as at 31 December 2011	**8,732,291**

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 were received in 2010 and 2011.

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.

15. Borrowings

	Group		Company	
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Non-current borrowings:				
Bank borrowings secured by the Group assets	69,533,156	63,098,888	16,249,993	11,147,580
	69,533,156	**63,098,888**	**16,249,993**	**11,147,580**
Current borrowings:				
Current portion of non-current bank borrowings secured by the Group assets	12,023,517	15,253,992	3,500,642	4,318,342
Current bank borrowings secured by the Group assets	8,137,151	7,470,799	6,137,151	7,470,799
	20,160,668	**22,724,791**	**9,637,793**	**11,789,141**
TOTAL:	**89,693,824**	**85,823,679**	**25,887,786**	**22,936,721**

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
LTL	30,995,201	20,403,036	19,149,741	17,653,036
EUR	58,147,368	64,228,472	6,738,045	5,283,685
USD	551,255	1,192,171	-	-
TOTAL:	**89,693,824**	**85,823,679**	**25,887,786**	**22,936,721**

Total unutilized borrowing facilities of the Group and the Company as of 31 December 2011 amounted to LTL 9,450 thousand (LTL 3,529 thousand as of 31 December 2010).

Information on borrowings from related parties is presented under Note 28.

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) which EBITDA to financial liabilities ratio was equal to 2.4 and was below the requirement (required not less than 3.8). Therefore, the loan of LTL 3,859 thousand is accounted for as current loan in the statement of financial position of the Group as at 31 December 2010.

As at 31 December 2011 the Company and the Group complied with all the mentioned debt covenants.

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 2011 the weighted average annual interest rate of borrowings outstanding of the Company and the Group was 3.30% and 2.99%, respectively (2.58% and 2.41%, respectively, as at 31 December 2010). In 2011 and 2010 the period of repricing of floating interest rates on borrowings varies from 1 day to 12 months.

For analysis of liquidity risk please refer to Note 4.

15. Borrowings (cont'd)

Pledged assets

For the loans from banks the Group and the Company have pledged property, plant and equipment (Note 5), intangible assets (Note 6), inventories (Note 9), trade accounts receivable (Note 10), bank accounts (Note 11), share of stock of AB Klaipėdos Kartonas 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 2011:

Group	**Currency**	**Nominal interest rate base**	**Repayment period**	**Carrying amount**
Overdraft	LTL	VILIBOR	2012	8,137,151
Secured bank loan	LTL	VILIBOR	2012 - 2015	6,020,744
Secured bank loan	EUR	EURIBOR	2012 - 2015	6,762,590
Secured bank loan	LTL	VILIBOR	2013	6,250,000
Secured bank loan	EUR	LIBOR	2012 - 2014	717,301
Secured bank loan	LTL	VILIBOR	2013	4,000,000
Secured bank loan	LTL	VILIBOR	2012 - 2015	3,045,460
Secured bank loan	LTL	VILIBOR	2013	2,800,000
Secured bank loan	EUR	EURIBOR	2012 - 2019	51,409,323
Secured bank loan	USD	LIBOR	2012	551,255
TOTAL:				**89,693,824**

Company	**Currency**	**Nominal interest rate base**	**Repayment period**	**Carrying amount**
Overdraft	LTL	VILIBOR	2012	6,137,151
Secured bank loan	EUR	EURIBOR	2012 - 2015	6,020,744
Secured bank loan	LTL	VILIBOR	2012 - 2015	6,762,590
Secured bank loan	LTL	VILIBOR	2013	6,250,000
Secured bank loan	EUR	LIBOR	2012 - 2014	717,301
TOTAL:				**25,887,786**

The following interest rates 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**

15. Borrowings (cont'd)

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**

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

	Group		Company	
Year	**As at 31 December 2011**	**As at 31 December 2010**	**As at 31 December 2011**	**As at 31 December 2010**
Within one year	12,023,517	15,253,992	3,500,642	4,318,342
In the period of five years	50,254,693	37,394,201	16,249,993	11,147,580
After 5 years	19,278,463	25,704,687	-	-
	81,556,673	**78,352,880**	**19,750,635**	**15,465,922**

16. Financial lease obligations

The assets leased by the Group and the Company under financial lease contracts mainly consist of vehicles, machinery and equipment. 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 currency of the financial lease agreements is EUR.

As at 31 December 2011 the interest rate on the financial lease obligations fluctuates from 6 to 12 month EURIBOR or 6 month EUR LIBOR (as at 31 December 2010 – 6 month EUR LIBOR - 12 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 2011	**As at 31 December 2010**	**As at 31 December 2011**	**As at 31 December 2010**
Within one year	3,900,723	4,466,109	3,030,382	3,960,996
From one to five years	4,177,003	7,360,661	3,738,146	6,997,832
Total financial lease obligations	**8,077,726**	**11,826,770**	**6,768,528**	**10,958,828**
Interest	(273,231)	(427,370)	(206,061)	(358,001)
Present value of financial lease obligations	**7,804,495**	**11,399,400**	**6,562,467**	**10,600,827**
Financial lease obligations are accounted as:				
- current	3,752,086	4,242,460	2,936,417	3,787,762
- non-current	4,052,409	7,156,940	3,626,050	6,813,065

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 5).

17. Non-current employee benefits

As at 31 December 2011 and 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.

	Group	Company
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	730,067	370,053
Transfer to subsidiary (Note 1)	-	(199,105)
Change during the year 2011	59,296	(853)
As at 31 December 2011	**789,363**	**170,095**

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

	As at 31 December 2011	As at 31 December 2010
Discount rate	5.71 %	4.85%
Anticipated annual salary increase	3.00 %	2.00%

18. 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.

	Group		Company	
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Trade payables	32,560,874	31,524,025	12,936,941	20,143,153
Taxes, salaries and social insurance	5,363,556	4,754,736	1,900,804	2,038,276
Advances received	1,441,846	885,715	105,793	196,772
Other payables	3,391,307	3,889,784	1,696,404	2,409,904
TOTAL:	**42,757,583**	**41,054,260**	**16,639,942**	**24,788,105**

19. 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 and paper products, hardboard and wood processing, raw material for corrugated cardboard and related production. Segment information about these business segments is presented below:

Group 2011	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard and related production	Unallocated	TOTAL:
Sales	77,937,849	75,353,191	147,971,272	6,415,349[1]	**307,677,661**
Cost of sales	(66,735,178)	(64,637,960)	(129,580,741)	(6,092,999)[2]	**(267,046,878)**
Gross profit	**11,202,671**	**10,715,231**	**18,390,531**	**322,350**	**40,630,783**
Depreciation and amortization	6,041,858	5,803,923	7,110,707	3,178,172[3]	**22,134,660**
Segment property, plant and equipment, investment property and intangible assets	38,097,832	30,604,683	74,409,242	38,497,979[3]	**181,609,736**
Goodwill	-	-	-	10,362,101	**10,362,101**
Segment capital expenditure	4,127,459	4,953,891	19,562,038	2,401,464[3]	**31,044,854**

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, investment property and intangible assets	40,493,130	45,326,172	61,586,924	25,950,118[3]	**173,356,344**
Goodwill	-	-	-	10,362,101	**10,362,101**
Segment capital expenditure	1,191,212	16,920,371	2,112,153	496,031[3]	**20,719,767**

[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 2011 - LTL 6,415 thousand and for 2010 – LTL 6,248 thousand).
[2] Unallocated cost of sales include costs related to unallocated sales (for 2011 - LTL 6,093 thousand and for 2010 – LTL 5,473 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.

19. Segment information (cont'd)

Company 2011

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard, and related production	Unallocated	TOTAL:
Sales	77,937,849	59,669,830	15,254,511	6,415,349[1]	**159,277,539**
Cost of sales	(66,735,178)	(50,131,465)	(13,344,368)	(6,092,999)[2]	**(136,304,010)**
Gross profit	**11,202,671**	**9,538,365**	**1,910,143**	**322,350**	**22,973,529**
Depreciation and amortization	6,041,858	4,211,029	649,580	3,178,171[3]	**14,080,638**
Segment property, plant and equipment, investment property and intangible assets	38,097,832	-	14,641,049	38,497,979[3]	**91,236,860**
Segment capital expenditure	4,127,457	4,614,050	14,513,284	2,401,466[3]	**25,656,257**

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**	**2,315,760**	**1,781,939**	**775,422**	**14,079,266**
Depreciation and amortization	6,292,205	3,926,359	550,310	3,064,589[3]	**13,833,463**
Segment property, plant and equipment, investment property and intangible assets	40,493,130	34,291,773	984,643	25,952,947[3]	**101,722,493**
Segment capital expenditure	1,191,212	16,261,146	210,829	496,031[3]	**18,159,218**

[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 2011 - LTL 6,415 thousand and for 2010 – LTL 8,285 thousand).
[2] Unallocated cost of sales include costs related to unallocated sales (for 2011 - LTL 6,093 thousand and for 2010 – LTL 5,473 thousand), identifiable as expenses for purchases of wood and gas needed for energy production.
[3] Unallocated depreciation and amortization, property, plant and equipment, investment property 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 2011 amounts to LTL 27,538 thousand and LTL 15,158 thousand, respectively (in 2010 – LTL 21,550 thousand and LTL 12,551 thousand, respectively).

19. 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	
	2011	2010	2011	2010
Domestic market (Lithuania)	**88,609,016**	**97,908,658**	**58,412,986**	**53,887,107**
Foreign market				
Latvia	27,249,839	21,526,856	15,545,333	12,938,788
Poland	64,891,390	32,463,404	28,551,603	13,406,537
Sweden	10,499,733	8,859,379	10,499,733	8,859,379
Denmark	10,520,805	10,663,434	10,254,475	10,251,046
Estonia	12,220,303	9,356,598	7,628,431	6,458,927
The Netherlands	7,452,362	3,397,253	2,469,150	3,397,253
Slovakia	4,314,106	3,963,554	4,314,106	3,963,554
Finland	3,145,629	2,818,267	3,145,629	2,671,885
Great Britain	6,291,616	3,935,663	6,291,616	3,935,663
Norway	755,161	1,275,057	755,161	1,275,057
Czech Republic	13,784,310	5,302,193	6,301,183	3,585,410
Germany	4,771,510	3,912,088	960,294	2,253,797
Belarus	4,050,368	5,173,770	891,727	978,551
Italy	1,429,066	1,009,721	-	-
Hungary	1,120,551	481,917	516,144	134,002
France	2,176,345	821,514	-	-
Russia	7,617,808	6,439,534	-	-
Ukraine	32,325,995	24,369,433	-	-
Other countries	4,451,748	2,107,174	2,739,968	1,745,512
Foreign market, total	**219,068,645**	**147,876,809**	**100,864,553**	**75,855,361**
TOTAL:	**307,677,661**	**245,785,467**	**159,277,539**	**129,742,468**

Property, plant and equipment and investment property location:

	Group		Company	
	2011	2010	2011	2010
Lithuania	168,746,636	162,111,027	91,018,210	101,593,280
Ukraine	8,554,844	8,836,048	-	-
TOTAL:	**177,301,480**	**170,947,075**	**91,018,210**	**101,593,280**

20. Other operating income

	Group		Company	
	2011	2010	2011	2010
Gain from sale of emission rights	2,370,751	2,503,450	2,370,751	2,503,450
Rental income	683,730	554,796	683,730	545,796
Income from sale of low value inventory	-	892,889	-	892,889
Income from sale of scrap	341,784	376,588	185,004	376,588
Insurance compensations	32,286	8,823	-	6,463
Gain from disposal of property, plant and equipment	110,479	3,719	110,479	4,923
Other income	457,894	205,261	544,408	-
TOTAL:	**3,996,924**	**4,545,526**	**3,894,372**	**4,330,109**

21. Other operating expenses

	Group		Company	
	2011	2010	2011	2010
Expenses related to rented property	169,662	169,898	169,662	143,100
Other expenses	82,680	260,574	61,863	7,824
TOTAL:	**252,342**	**430,472**	**231,525**	**150,924**

22. Selling and distribution expenses

	Group		Company	
	2011	2010	2011	2010
Fuel and transportation services	7,328,723	5,943,631	6,308,130	4,687,113
Salaries and related expenses	2,980,262	2,198,484	2,144,026	1,993,301
Mediation, marketing, promotion and representation	1,666,886	1,378,672	1,494,690	1,361,262
Repairs and maintenance	461,974	474,506	309,134	463,710
Depreciation and amortization	261,809	135,368	148,481	61,167
Other sales expenses	805,063	625,897	580,358	459,212
TOTAL:	**13,504,717**	**10,756,558**	**10,984,819**	**9,025,765**
Selling and distribution expenses related to:				
continuing operations	-	-	*6,527,456*	*5,563,813*
discontinued operations	-	-	*4,457,363*	*3,461,952*

23. General and administrative expenses

	Group		Company	
	2011	2010	2011	2010
Salaries and related expenses	5,779,264	5,809,972	3,360,140	3,652,992
Taxes, except for income tax	1,326,556	1,132,365	846,189	690,963
Fuel and transportation services	533,553	645,302	234,308	318,943
Bank charges	377,919	449,519	131,550	175,159
Asset repairs and maintenance	387,602	468,135	284,162	465,113
Depreciation and amortization	789,859	426,607	497,000	219,717
Security services	429,215	389,356	325,175	302,656
Insurance services	313,434	187,553	167,071	150,629
Consulting services	295,980	353,769	188,700	176,965
Communication services	140,224	118,269	72,234	65,028
Advertising and representation	209,340	127,245	123,519	54,233
Inventory allowance	573,362	(79,967)	(95,233)	(79,967)
Other administrative expenses	430,271	1,101,143	463,702	652,106
TOTAL:	**11,586,579**	**11,129,268**	**6,598,517**	**6,844,537**
General and administrative expenses related to:				
continuing operations	-	-	*5,216,943*	*5,651,907*
discontinued operations	-	-	*1,381,574*	*1,192,630*

24. Finance income and (expenses), net

	Group		Company	
	2011	2010	2011	2010
Interest income	141,173	1,475	3,612	119,126
Other finance income (Note 1)	14,584	2,382	5,839,973	2,382
Total finance income	**155,757**	**3,857**	**5,843,585**	**121,508**
Interest on loans and leases	(3,136,315)	(2,885,040)	(1,265,123)	(859,236)
Net foreign exchange losses	(4,140,540)	(3,204,977)	(89,046)	(38,007)
Other finance expenses	(99,026)	(219,170)	(54,798)	(5,013)
Total finance expenses	**(7,375,881)**	**(6,309,187)**	**(1,408,967)**	**(902,256)**
Finance income and expenses, related to discontinued operations	-	-	5,360,421	(343,694)
Finance income and expenses, net	**(7,220,124)**	**(6,305,330)**	**(925,803)**	**(437,054)**

Foreign exchange loss in the Group in 2011 and 2010 is generated by subsidiary OAO Mena Pak which is operating in Ukraine.

25. Income tax

	Group		Company	
Components of income tax expenses	2011	2010	2011	2010
Current income tax	1,480,754	1,276,782	648,741	188,551
Correction of income tax for previous periods	(64,059)	-	(40,616)	-
Deferred income tax (income)	(2,137,006)	(164,926)	(655,487)	(100,859)
Income tax expenses (income) recorded in the statement of comprehensive income	**(720,311)**	**1,111,856**	**(47,362)**	**87,692**

25. 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	
	2011	2010	2011	2010
Profit before tax	**12,063,945**	**8,654,138**	**13,487,658**	**1,607,401**
Income tax expenses computed at 15%	1,809,592	1,298,121	2,023,149	241,110
Effect of higher tax rate in Ukraine	72,059	251,118	-	-
Effect of change in tax rate	(243,386)	-	-	-
Change in deferred tax asset valuation allowance	(1,405,998)	945,082	(929,672)	1,042,034
Correction of income tax for previous periods	(64,059)	-	(40,616)	-
Utilized tax incentive due to investment projects	(303,739)	(1,186,127)	(303,739)	(1,186,127)
Permanent differences	(584,780)	(196,338)	(796,484)	(9,325)
Income tax expenses reported in the statement of comprehensive income	**(720,311)**	**1,111,856**	**(47,362)**	**87,692**

	Group		Company	
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Deferred income tax asset				
Allowance for accounts receivable	138,597	209,428	38,204	124,188
Investment incentive (bio-fuel boiler construction)	650,254	995,256	650,254	995,256
Allowance for inventories	213,705	129,100	113,416	129,100
Non-current employee benefits	118,405	109,510	25,514	55,508
Vacation accrual	347,562	602,034	158,926	225,496
Tax loss carry forward	837,063	871,471	-	-
Other accruals	310,371	-	-	-
Deferred income tax asset before valuation allowance	2,615,957	2,916,799	986,314	1,529,548
Less: valuation allowance	(318,874)	(1,760,238)	(318,874)	(1,248,546)
Deferred income tax asset, net of valuation allowance	2,297,083	1,156,561	667,440	281,002
Deferred income tax liability				
Intangible assets (land lease)	(326,667)	(330,667)	-	-
Property, plant and equipment (investment incentive)	(267,768)	(317,662)	(149,606)	(317,662)
Property, plant and equipment revaluation (deemed cost)	(3,405,004)	(4,328,492)	(878,300)	(1,957,207)
Property, plant and equipment (repairs incentive)	(57,148)	(59,024)	(57,147)	(59,024)
Other	(30,584)	(47,855)	-	-
Deferred income tax liability	(4,087,171)	(5,083,700)	(1,085,053)	(2,333,893)
Deferred income tax, net	**(1,790,088)**	**(3,927,139)**	**(417,613)**	**(2,052,891)**

25. 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 2009**	**Recognised in statement of compre-hensive income**	**Acquired subsidiaries**	**Recognised in retained earnings**	**As at 31 December 2010**	**Recognised in statement of compre-hensive income**	**As at 31 December 2011**
Intangible assets	(2,231,113)	26,668	-	-	(2,204,445)	26,665	(2,177,780)
Property, plant and equipment (investment incentive)	(2,440,643)	322,894	-	-	(2,117,749)	332,627	(1,785,122)
Property, plant and equipment	-	40,340	(15,848,907)	(13,047,594)	(28,856,161)	6,156,587	(22,699,574)
Investment incentive (bio-fuel boiler construction)	-	6,635,040	-	-	6,635,040	(2,300,011)	4,335,029
Property, plant and equipment (repairs incentive)	(406,007)	12,511	-	-	(393,496)	12,511	(380,985)
Non-current employee benefits	370,053	12,332	347,682	-	730,067	59,301	789,368
Allowance for accounts receivable	885,473	150,959	359,753	-	1,396,185	(472,208)	923,977
Allowance for inventories	940,636	(79,967)	-	-	860,669	564,030	1,424,699
Vacation accrual	1,305,717	488,473	2,219,371	-	4,013,561	(1,696,481)	2,317,080
Tax loss carry forward	5,699,973	109,831	-	-	5,809,804	(229,384)	5,580,420
Other	-	(319,033)	-	-	(319,033)	2,184,280	1,865,247
Total temporary differences before valuation allowance	4,124,089	7,400,048	(12,922,101)	(13,047,594)	(14,445,558)	4,637,917	(9,807,641)
Valuation allowance	(5,434,373)	(6,300,546)	-	-	(11,734,919)	9,609,094	(2,125,825)
Total temporary differences	**(1,310,284)**	**1,099,502**	**(12,922,101)**	**(13,047,594)**	**(26,180,477)**	**14,247,011**	**(11,933,466)**
Deferred income tax, net	**(196,543)**	**164,926**	**(1,938,315)**	**(1,957,207)**	**(3,927,139)**	**2,137,006**	**(1,790,088)**
Change in temporary differences		164,926				2,137,006	

25. 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 2009**	**Recognised in statement of comprehensive income**	**Recognised in retained earnings**	**As at 31 December 2010**	**Recognised in statement of comprehensive income**	**Transferred to subsidiary (Note 1)**	**As at 31 December 2011**
Property, plant and equipment (investment incentive)	(2,440,643)	322,894	-	(2,117,749)	332,625	787,749	(997,375)
Property, plant and equipment	-	-	(13,047,594)	(13,047,594)	680,673	6,512,042	(5,854,879)
Investment incentive (bio-fuel boiler construction)	-	6,635,040	-	6,635,040	(2,300,011)	-	4,335,029
Property, plant and equipment (repairs incentive)	(406,007)	12,511	-	(393,496)	12,511	-	(380,985)
Non-current employee benefits	370,053	-	-	370,053	(853)	(199,105)	170,095
Allowance for accounts receivable	829,614	(1,691)	-	827,923	(573,233)	-	254,690
Allowance for inventories	940,636	(79,967)	-	860,669	(104,563)	-	756,106
Vacation accrual	1,166,304	337,000	-	1,503,304	124,940	(568,737)	1,059,507
Total temporary differences before valuation allowance	**459,957**	**7,225,787**	**(13,047,594)**	**(5,361,850)**	**1,827,911**	**6,531,949**	**(657,812)**
Valuation allowance	**(2,140,303)**	**(6,553,397)**	-	**(8,323,641)**	**6,197,816**	-	**(2,125,825)**
Total temporary differences	**(1,680,346)**	**672,390**	**(13,047,594)**	**(13,685,491)**	**4,369,905**	**6,531,949**	**(2,783,637)**
Deferred income tax, net	**(196,543)**	**100,859**	**(1,957,207)**	**(2,052,891)**	**655,487**	**979,791**	**(417,613)**
Change in temporary differences		100,859			655,487		

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15% rate in 2011 and 2010. The deferred tax of company operating in Ukraine was calculated using 25% tax rate in 2011, 21% and 16% in 2010. The expiry date of deferred tax asset from investment incentive is the end of year 2014.

26. 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	
	2011	**2010**
Net profit (loss) attributable to the shareholders	12,654,614	7,200,526
Average number of ordinary shares	60,000,000	60,000,000
Earnings per share	**0.21**	**0.12**

27. Dividends per share

	2011	2010
Approved dividends*	1,200,000	1,200,000
Number of shares**	60,000,000	60,000,000
Approved dividends per share (LTL)	0.02	0.02

* The year when the dividends are approved.
** At the date when dividends are approved.

28. Related party transactions

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.

As at 31 December 2011 and 2010 at the Group there were no guarantees or pledges given or received in respect of the related party payables and receivables. The Company as at 31 December 2011 and 2010 had guarantee issued to the bank to secure the loans of LTL 2,800 thousand (31 December 2010 – LTL 3,859 thousand) of its subsidiary UAB Baltwood.

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 2011	**Sale of goods and services**	**Purchase of goods and services**	**Amounts receivable**	**Amounts payable**
UAB Ginvildos investicija	390	218,873	-	90,088
UAB Didma	3,373	475,147	-	-
UAB Naras	3,959	-	-	-
UAB Naujieji Verkiai	11,303	-	1,254	-
TOTAL:	**19,025**	**694,020**	**1,254**	**90,088**

28. Related party transactions (cont'd)

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:	**666,826**	**502,797**	**197,082**	**23,056**

Company 2011

	Sale of goods and services	Purchase of goods and services	Amounts receivable	Amounts payable
UAB Baltwood	4,501,283	3,325,979	3,580,133	-
UAB AGR Prekyba	1,671	-	116,985	-
UAB Ginvildos investicija	390	218,873	-	90,088
UAB Didma	3,373	475,147	-	-
UAB Naras	3,959	-	-	-
UAB Naujieji Verkiai	11,303	-	1,254	-
AB Klaipėdos Kartonas	407,965	10,542,891	84,707	1,752,916
TOTAL:	**4,929,944**	**14,562,890**	**3,783,079**	**1,843,004**

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	115,287	-	10, 115,287	-
UAB Ginvildos investicija	380	139,075	-	23,056
UAB Didma	2,548	313,427	-	-
UAB Naras	55,205	-	10,047	-
UAB Naujieji Verkiai	3,086	-	897	-
AB Klaipėdos Kartonas	332,284	7,133,263	127,374	2,602,799
TOTAL:	**2,937,865**	**10,159,127**	**14,095,133**	**2,625,855**

As at 31 December 2010 receivables in amount of LTL 10,115 thousand from UAB AGR Prekyba and part of the receivable from UAB Baltwood (LTL 3,347 thousand) were accounted for under non-current receivables caption in the statement of financial position of the Company (whereas the remaining amount of the receivable accounted under accounts receivable caption). In 2011 the Company as the sole shareholder, increased share capital of UAB AGR Prekyba by LTL 10,000 thousand. The payment for the newly issued shares was made by netting the payable amount for shares with the receivable from UAB AGR Prekyba. As at 31 December 2011 only part of the receivable from UAB Baltwood (LTL 1,701 thousand) was accounted as non-current (Note 8). The remaining amount of LTL 1,879 thousand included under accounts receivable caption in the statement of financial position of the Company (Note 10). Non-current intercompany receivables bear interest rates that approximate market interest rates.

Purchases from UAB Baltwood include purchases of wood for hardboard production. Moreover, purchases from AB Klaipėdos Kartonas include purchase of test liner 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.

28. 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	
	2011	2010	2011	2010
Management remuneration	1,901,055	1,750,288	1,144,661	1,105,321
Average number of managers	15	14	8	8

In 2011 and 2010 the management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued. In 2011 the Company paid bonuses to its Supervisory Board and Management Board in total amount of LTL 100 thousand (in 2010 - nil).

29. 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 (unaudited)**	
	Group	**Company**
As at 31 December 2009	**(30,617)**	**(30,617)**
Emission rights allocated	115,794	83,481
Emission rights used	(69,334)	(36,223)
Sale of emission rights	(52,000)	(52,000)
As at 31 December 2010	**(36,157)**	**(35,359)**
Emission rights allocated	105,267	72,954
Purchase of emission rights	40,000	40,000
Emission rights used	(49,021)	(13,985)
Sale of emission rights	(70,000)	(70,000)
As at 31 December 2011	**(9,911)**	**(6,390)**

The shortage of emission rights as at 31 December 2011 and 2010 was covered from the rights received in 2012 and 2011 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.

30. Subsequent events

On 1 March, 2012 new by-laws and increased share capital up to LTL 32,637 thousand at subsidiary UAB Baltwood were registered. Changes were related to transferred activities from the Company to the subsidiary as at 31 December 2011 (Note 1).