
AB Grigiškės

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012,
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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Independent Auditor's Report

To the Shareholders of AB Grigiškės

Report on the Parent Company's and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AB Grigiškės ("the Company"), which comprise the separate statement of financial position as at 31 December 2012, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5–61. We have also audited the accompanying consolidated financial statements of AB Grigiškės and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5–61.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of these 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 separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's and Group's preparation and fair presentation of these 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 Company's and Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by Company's and Group's management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the unconsolidated financial position of AB Grigiškės as at 31 December 2012, and of its unconsolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AB Grigiškės and its subsidiaries as at 31 December 2012, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report of AB Grigiškės for the year ended 31 December 2012, set out on pages 62–111 of the financial statements, and have not identified any material inconsistencies between the financial information included in the annual report and the financial statements of AB Grigiškės for the year ended 31 December 2012.

On behalf of KPMG Baltics, UAB



Rokas Kasperavičius
Partner pp
Certified Auditor



Ieva Voverienė
Certified Auditor

Vilnius, Republic of Lithuania
4 April 2013

STATEMENTS OF FINANCIAL POSITION

	Notes	Group		Company	
		As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
ASSETS					
Non-current assets					
Property, plant and equipment	4	180,022,200	172,578,689	98,025,181	86,295,419
Investment property	6	3,237,646	4,722,791	3,237,646	4,722,791
Intangible assets	5	16,034,012	14,670,357	1,312,490	218,649
Investments into subsidiaries	1	-	-	40,755,923	37,950,923
Non-current receivables		319,318	51,298	278,019	1,701,303
Deferred income tax assets	23	-	-	153,650	-
Total non-current assets		199,613,176	192,023,135	143,762,909	130,889,085
Current assets					
Inventories	7	21,297,591	24,538,379	6,717,904	5,580,809
Accounts receivable	8	30,993,674	30,452,543	13,621,147	14,029,967
Other assets		964,596	1,046,261	335,881	365,015
Cash and cash equivalents	9	1,239,577	2,134,809	195,749	71,238
Total current assets		54,495,438	58,171,992	20,870,681	20,047,029
TOTAL ASSETS		254,108,614	250,195,127	164,633,590	150,936,114

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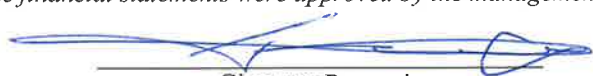
AB GRIGIŠKĖS, Company code: 110012450, Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
(all amounts are in LTL unless otherwise stated)

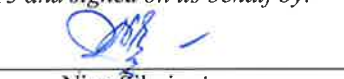
STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Notes	Group		Company	
		As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
EQUITY AND LIABILITIES					
Equity					
Share capital	10	60,000,000	60,000,000	60,000,000	60,000,000
Legal reserve	10	4,898,670	4,221,919	4,898,670	4,221,919
Foreign currency translation reserve		(354,420)	(59,777)	-	-
Retained earnings		38,838,451	31,356,702	34,826,430	28,221,313
Equity attributable to equity holders of the parent		104,005,433	95,518,844	99,725,100	92,443,232
Non-controlling interests		2,100,568	2,977,858	-	-
Total equity		106,106,001	98,496,702	99,725,100	92,443,232
Liabilities					
Non-current liabilities					
Grants and subsidies	12	8,214,716	8,732,291	8,099,580	8,732,291
Non-current borrowings	13	50,728,916	69,533,156	11,217,373	16,249,993
Financial lease obligations	14	3,184,230	4,052,409	2,865,026	3,626,050
Deferred income tax liability	23	1,999,364	1,790,088	-	417,613
Non-current employee benefits	15	648,608	789,363	169,349	170,095
Long-term trade payables		186,451	-	186,451	-
Total non-current liabilities		64,962,285	84,897,307	22,537,779	29,196,042
Current liabilities					
Current portion of long term loans		14,285,395	12,023,517	7,265,600	3,500,642
Current borrowings	13	22,763,353	8,137,151	14,356,272	6,137,151
Current portion of financial lease obligations	14	3,254,648	3,752,086	2,726,658	2,936,417
Income tax payable		574,615	130,781	493,885	82,688
Trade and other payables	16	42,162,317	42,757,583	17,492,296	16,639,942
Total current liabilities		83,040,328	66,801,118	42,370,711	29,296,840
TOTAL EQUITY AND LIABILITIES		254,108,614	250,195,127	164,633,590	150,936,114

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

The financial statements were approved by the management on 4 April 2013 and signed on its behalf by:


Gintautas Pangonis
President


Nina Šilerienė
Vice president, Finance


AB GRIGIŠKĖS, Company code: 110012450, Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
(all amounts are in LTL unless otherwise stated)

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2012	2011	2012	2011
Revenue	17	289,516,566	307,677,661	111,050,995	159,277,539
Continuing operations		-	-	111,050,995	99,607,709
Discontinued operations	1	-	-	-	59,669,830
Cost of sales		(243,970,026)	(261,067,646)	(90,950,566)	(136,304,010)
Continuing operations		-	-	(90,950,566)	(86,172,545)
Discontinued operations	1	-	-	-	(50,131,465)
Gross profit		45,546,540	46,610,015	20,100,429	22,973,529
Other operating income	18	2,347,237	3,996,924	3,510,466	3,894,372
Continuing operations		-	-	-	3,894,372
Selling and distribution expenses	20	(21,580,698)	(18,795,162)	(7,399,223)	(10,984,819)
Continuing operations		-	-	(7,399,223)	(6,527,456)
Discontinued operations	1	-	-	-	(4,457,363)
General and administrative expenses	21	(12,282,835)	(12,275,366)	(6,192,489)	(6,598,517)
Continuing operations		-	-	(6,192,489)	(5,216,943)
Discontinued operations	1	-	-	-	(1,381,574)
Other operating expenses	19	(829,978)	(252,342)	(807,772)	(231,525)
Continuing operations		-	-	(807,772)	(231,525)
Profit from operations		13,200,266	19,284,069	9,211,411	9,053,040
Finance income	22	532,398	155,757	506,841	5,843,585
Continuing operations		-	-	506,841	3,627
Discontinued operations	1	-	-	-	5,839,958
Finance expenses	22	(3,090,245)	(7,375,881)	(1,000,251)	(1,408,967)
Continuing operations		-	-	(1,000,251)	(929,430)
Discontinued operations	1	-	-	-	(479,537)
Profit before income tax		10,642,419	12,063,945	8,718,001	13,487,658
Income tax	23	(1,311,878)	(720,311)	(236,133)	(47,362)
Continuing operations		-	-	(236,133)	(47,362)
NET PROFIT		9,330,541	12,784,256	8,481,868	13,535,020
Continuing operations		-	-	8,481,868	4,475,171
Discontinued operations	1	-	-	-	9,059,849
Other comprehensive income					
Exchange differences on translation of foreign operations		(294,643)	(6,389)	-	-
Total comprehensive income for the year, net of tax		9,035,898	12,777,867	8,481,868	13,535,020
Profit attributable to:					
The shareholders of the Company		9,358,500	12,654,614	8,481,868	13,535,020
Non-controlling interests		(27,959)	129,642	-	-
		9,330,541	12,784,256	8,481,868	13,535,020
Total comprehensive income attributable to:					
The shareholders of the Company		9,063,857	12,648,225	8,481,868	13,535,020
Non-controlling interests		(27,959)	129,642	-	-
		9,035,898	12,777,867	8,481,868	13,535,020
Basic and diluted earnings per share	24	0,16	0,21		

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

The financial statements were approved by the management on 4 April 2013 and signed on its behalf by:


Gintautas Pangonis
President


Nina Silerienė
Vice-president, Finance

STATEMENTS OF CHANGES IN EQUITY

Group

	Equity attributable to equity holders of the parent						Total equity:
	Share capital	Legal reserve	Foreign currency translation reserve	Retained earnings	TOTAL:	Non-controlling interest	
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 (expense) 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 25)	-	-	-	(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
Net profit for the year	-	-	-	9,358,500	9,358,500	(27,959)	9,330,541
Other comprehensive income (expenses)	-	-	(294,643)	-	(294,643)	-	(294,643)
Total comprehensive income (expenses) for the year	-	-	(294,643)	9,358,500	9,063,857	(27,959)	9,035,898
Transfer to legal reserve	-	676,751	-	(676,751)	-	-	-
Change of non-controlling interest	-	-	-	622,732	622,732	(622,732)	-
Dividends declared (Note 25)	-	-	-	(1,200,000)	(1,200,000)	(226,599)	(1,426,599)
Balance as at 31 December 2012	60,000,000	4,898,670	(354,420)	39,461,183	104,005,433	2,100,568	106,106,001

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STATEMENTS OF CHANGES IN EQUITY (CONT'D)

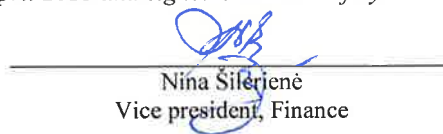
Company	Share capital	Legal reserve	Other reserves	Retained earnings	Total equity:
Balance as at 31 December 2010	60,000,000	4,145,934	-	15,962,278	80,108,212
Net profit for the year	-	-	-	13,535,020	13,535,020
Other comprehensive income (expenses)	-	-	-	-	-
Total comprehensive income (expense) for the year	-	-	-	13,535,020	13,535,020
Dividends declared (Note 25)	-	-	-	(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
Net profit for the year	-	-	-	8,481,868	8,481,868
Other comprehensive income (expenses)	-	-	-	-	-
Total comprehensive income (expense) for the year	-	-	-	8,481,868	8,481,868
Dividends declared (Note 25)	-	-	-	(1,200,000)	(1,200,000)
Transfer to legal reserve	-	676,751	-	(676,751)	-
Balance as at 31 December 2012	60,000,000	4,898,670	-	34,826,430	99,725,100

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

The financial statements were approved by the management on 4 April 2013 and signed on its behalf by:



Gintautas Pangonis
President



Nina Šiferienė
Vice president, Finance

STATEMENTS OF CASH FLOWS

Notes	Group		Company	
	2012	2011	2012	2011
Cash flows from (to) operating activities				
Profit before income tax	10,642,419	12,063,945	8,718,001	13,487,658
Adjustments for non-cash items:				
Depreciation and amortisation net of grant	22,385,923	21,508,136	11,397,341	13,454,114
Finance (income) expenses, net	22	2,557,847	7,220,124	493,410
Loss (gain) on disposal of property, plant and equipment	(872,433)	(110,479)	(2,277,355)	(110,479)
Allowance (reversal) for slow moving inventory, write-off to net realizable value	7	(552,338)	573,362	(67,837)
Property, plant and equipment impairment losses (reversal)	(6,250)	(84,247)	(6,250)	(84,247)
Allowance for doubtful accounts receivable (reversal)	8	4,896	(67,849)	141,446
		34,160,064	41,102,992	18,534,430
				21,815,966
Changes in working capital:				
(Increase) decrease in trade receivables and other receivables	(814,047)	1,983,308	1,690,658	623,470
(Increase) decrease in inventories	3,815,525	(5,487,831)	(1,182,558)	(121,972)
(Increase) decrease in other assets	81,665	467,569	29,134	109,405
Increase (decrease) in trade and other payables	243,970	1,068,671	(1,412,383)	(4,083,606)
	3,327,113	(1,968,283)	1,949,617	(3,472,703)
Interest (paid)	(2,490,845)	(3,136,315)	(990,120)	(1,265,123)
Income tax (paid)	(1,603,601)	(2,100,729)	(287,008)	(204,650)
Net cash flows from (to) operating activities	33,392,731	33,897,665	19,206,919	16,873,490

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STATEMENTS OF CASH FLOWS (CONT'D)

	Notes	Group		Company	
		2012	2011	2012	2011
Cash flows from (to) investing activities					
(Acquisition) of non-current assets	4, 5	(27,242,546)	(29,757,180)	(21,606,162)	(25,021,841)
(Acquisition) of investments in subsidiaries (net of cash acquired in the Group)		-	-	(2,805,000)	(5,000)
Proceeds from sale of non-current assets		1,050,004	200,895	774,313	200,895
Grants and subsidies received	12	449,920	948,295	326,560	948,295
Interest received		13,403	3,612	13,195	3,611
Net cash flows (to) investing activities		(25,729,219)	(28,604,378)	(20,497,094)	(23,874,040)
Cash flows from (to) financing activities					
Dividends (paid)		(1,426,599)	(1,469,844)	(1,200,000)	(1,200,000)
Loans (repaid)		(14,128,196)	(18,738,269)	(3,605,072)	(8,661,095)
Proceeds from borrowings		12,212,036	20,191,269	10,556,531	19,991,269
Finance lease (payments)		(5,215,985)	(4,520,269)	(4,336,773)	(3,419,578)
Net cash flows (to) financial activities		(8,558,744)	(4,537,113)	1,414,686	6,710,596
Net increase in cash and cash equivalents		(895,232)	756,174	124,511	(289,954)
Cash and cash equivalents at the beginning of the year		2,134,809	1,378,635	71,238	361,192
Cash and cash equivalents at the end of the year		1,239,577	2,134,809	195,749	71,238
Supplemental information of cash flows:					
Non-cash investing activity:					
Property, plant and equipment acquisitions financed by financial lease		3,850,368	847,513	3,401,990	403,054
Payable for the property, plant and equipment outstanding as at year end		3,264,316	2,663,900	1,318,509	2,455,103

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

The financial statements were approved by the management on 4 April 2013 and signed on its behalf by:


Gintautas Pangonis
President


Nina Šilerienė
Vice president, Finance

NOTES TO THE FINANCIAL STATEMENTS

1. General information

AB Grigiškės (hereinafter referred to as 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, 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 St. 10, Grigiškės, Vilnius 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 2012 and on 31 December 2011 AB Grigiškės group consists of AB Grigiškės and the following subsidiaries (hereinafter referred to as the Group):

Name	2012				2011		Address	Principal activity
	Share of the stock held by the Group	Size of investment (cost)	Profit (loss) for the reporting period	Equity at the end of reporting period (100 %)	Share of the stock held by the Group	Size of investment (cost)		
Subsidiaries directly controlled by the Company:								
UAB Baltwood	100%	27,592,000	1,290,847	26,497,813	100%	27,592,000	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Wood processing: production of wood for containers, fuel pellets and bonded furniture panels. Starting from 02.01.2012 also produces hardboards and coloured hardboards of wood fibre.
UAB Ekotara	100%	10,000	-	10,004	100%	10,000	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Corrugated board and packaging from corrugated board manufacturing. No operations in 2012 and 2011.
UAB Naujieji Verkiai	100%	-	6,298	(61,749)	100%	-	Popieriaus St. 15, Vilnius, Lithuania	Building and development of real estate.
UAB AGR Prekyba	100%	13,143,923	4,498,401	21,627,784	100%	10,343,923	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Investment activities and corporate governance.
UAB Grigiškių energija	100%	10,000	(8,263)	154	50%	5,000	Vilniaus St. 14, Grigiškės, Vilnius Mun., Lithuania	Heat production and sale. No operations in 2012.
		<u>40,755,923</u>				<u>37,950,923</u>		
Subsidiaries indirectly controlled by the Company:								
AB Klaipėdos Kartonas	95.78%	-	(213,175)	44,499,873	95.78%	-	Nemuno St. 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	94.18%	-	(165,904)	2,875,648	71.74%	-	Nemuno St. 2, Klaipėda, Lithuania	Waste-paper procurement.
PAT Mena Pak	93.79%	-	468,407	11,459,784	93.79%	-	Koshevovo St. 6, Chernigovo distr., Mena, Ukraine	Corrugated board and packaging from corrugated board manufacturing.

1. General information (cont'd)

Changes in the Group in 2012

In 2012 the Company, as the sole shareholder, increased share capital of UAB AGR Prekyba from LTL 10,010,000 to LTL 12,810,000 by issuing 28,000 ordinary shares with par value of LTL 100 each.

In 2012 the Company bought the rest 50% of shares of UAB Grigiškių Energija and currently is the sole shareholder of UAB Grigiškių Energija.

In 2012, by decision of general meeting of shareholders of UAB Klaipėda Recycling share capital of UAB Klaipėda Recycling was increased from LTL 200,000 to LTL 3,000,000 with additional contributions of shareholders by issuing 2,800,000 ordinary shares with par value of LTL 1 each.

Changes in the Group in 2011

In 2011 AB Grigiškės established a subsidiary UAB Grigiškių Energija, and the half of the shares was sold to the 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 2012 and 2011.

In order to increase efficiency of manufacturing processes of the Company, to optimise the acquisition of raw materials, production supplies, production and logistics processes, to reduce costs and increase profitability of business segments, on 1 December 2011 the Board of AB Grigiškės decided to transfer one of segments of AB Grigiškės activities – the production of wood fibre boards – 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 wood fibre boards, including but not limited to, real estate and equipment needed to pursue the activities, employee-related liabilities, and other rights and obligations arising from existing agreements.

After the transfer of part of activities to the subsidiary, both AB Grigiškės and UAB Baltwood continue to operate at the same address as before the transfer – at Vilniaus St. 10, Grigiškės, Vilnius. The main activity of AB Grigiškės remains production of tissue paper products and corrugated cardboard packaging, whereas UAB Baltwood focuses on activities related to wood processing, and skilled workers related to the activities transferred, who were employed in AB Grigiškės before the transfer, continue to work in UAB Baltwood.

Implementing the decision of the Board of AB Grigiškės of 1 December 2011 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 on transferring part of activities. Transfer date of activities was 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) in the year ended 31 December 2011. 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.

AB GRIGIŠKĖS, Company code: 110012450, Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
(all amounts are in LTL unless otherwise stated)

1. General information (cont'd)

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

	<u>2011</u>	<u>2010</u>
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.

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

	<u>2011</u>	<u>2010</u>
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 in 2011 are presented below:

	<u>Carrying value</u>
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

As at 31 December 2012, the number of employees of the Group was 890 (as at 31 December 2011 – 997). As at 31 December 2012, the number of employees of the Company was 291 (as at 31 December 2011 – 283).

The Company's management authorised these financial statements on 4 April 2013. 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 current year financial statements of the Group and the Company are prepared in accordance with International Financial Reporting Standards effective as at 31 December 2012 that have been adopted for use in the 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 accounting policies applied by the Group and the Company to all financial information reported in these financial statements are consistent with the accounting policies of the previous year. New IFRSs which became effective in 2012 did not have material impact on the financial statements.

Approved, but not yet effective standards and interpretations

New and revised International Financial Reporting Standards and interpretations have been issued, which will be effective for financial reporting periods starting from 1 January 2013 or later. The Group and the Company has decided not to early adopt the new standards and interpretations. Estimates of the possible effect of the new and revised standards applied for the first time, as presented by the Group's management, are stated below.

- Amendments to IFRS 7 and IAS 32 on *Offsetting Financial Assets and Financial Liabilities*
Amendments to IFRS 7 *Disclosures* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Group and the Company do not expect the Amendments to have a significant impact on the financial statements, as they have not entered into master netting or similar arrangements.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:
 - (1) it is exposed or has rights to variable returns from its involvements with the investee;
 - (2) it has the ability to affect those returns through its power over that investee; and
 - (3) there is a link between power and returns.

The new IFRS 10 also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Approved, but not yet effective standards and interpretations (continued)

Under the new IFRS 11, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- A joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. IFRS 11 eliminates the free choice of equity accounting or proportionate consolidation; the equity method must always be used in financial statements.

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The impact of the initial application of the new standards will depend on the specific facts and circumstances of the investees and joint arrangements of the Group held at the date of initial application. Therefore, it is not practicable to prepare an analysis of the impact the standards will have on the financial statements until the date of the application.

- IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The Group and the Company do not expect IFRS 13 to have a material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13 in material terms.
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively). The amendments:
 - require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections;
 - change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.

- Amendments to IAS 12: *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Approved, but not yet effective standards and interpretations (continued)

- IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendments are not relevant to the Group's and the Company's financial statements, since the Group and the Company do not have any defined benefit plans.
- IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014) introduces minor clarifications. The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*. The Company does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the Company's accounting policy.
- IAS 28 (2011) *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). There are limited amendments made to IAS 28 (2008):
 - *Associates and joint ventures held for sale*. IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an *associate or a joint venture*.
 - *Changes in interests held in associates and joint ventures*. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Group and the Company do not expect the amendments to Standard to have material impact on the financial statements since the Group and the Company do not have any investments in associates or joint ventures that will be impacted by the amendments.

2. Accounting policies (cont'd)

2.2. Going concern

These financial statements for the year ended 31 December 2012 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 credit facilities to meet its commitments at a given date in accordance with its strategic plans. As at 31 December 2012 current liabilities of the Group and the Company exceeded its current assets by LTL 28,545 thousand and LTL 21,500 thousand respectively.

Liquidity management plans are based on further improvement of the Group's and the Company's results and on extension of repayment schedules of current liabilities. As at 31 December 2012, under effective loan agreements current loans of the Company amounting to LTL 14,356 thousand and current loans of the Group amounting to LTL 22,736 thousand mature in 2013. The Group's and the Company's management is seeking to discuss the possible extension of these contractual loan maturities. Taking into account the long-term successful cooperation with the banks the Management of the Group expects to reach the agreement with the banks on the delay of repayment of part of long-term loans for subsequent periods.

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 2013, which allows the management to be confident about the Group's improved operational performance.

Due to the reasons mentioned above 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 the statement of comprehensive income.

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 2.24.).

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 – Lithuanian litas (LTL).

The functional currency of the Company and its subsidiaries operating in Lithuania is Lithuanian 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 at 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 at 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, litas is pegged to euro at the rate of LTL 3.4528 for EUR 1, 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 2011 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 Grigiškės, this is in-kind contribution 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 made a decision 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 recognise 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 transferred).

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 stated at 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.

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

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 at that date by independent property valuer, and these values were used as deemed cost at that date.

2. Accounting policies (cont'd)

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

Valuation of assets was performed using one of the methods: market comparables or depreciated replacement value (cost) method. The change from the indexed cost to deemed cost for accounting of buildings as at 31 December 2010 is presented below:

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

As at 31 December 2010, retained earnings in the Statement of Changes in Equity were increased due to influence of deemed cost application.

After 31 December 2010 all property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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.

2.9. 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 impairment loss, if any. 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. Accounting policies (cont'd)

2.10. Emission allowances

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 tonnes 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 allowances 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 allowances held. The Company and the Group have chosen a system that measures deficits on the basis of an annual allocation of emission allowances.

The outright sale of emission allowances 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.

2.11. Financial assets

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 2012 and 2011.

2. Accounting policies (cont'd)

2.11 Financial assets (cont'd)

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 the 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 2012 and 2011.

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 2.24 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 2012 and 2011.

2.12. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is 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. 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 2012 and in 2011.

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 recognised 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 recognised 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 amortised cost, using the effective interest rate method.

The nominal or cost value of the other payables is assumed to appropriate their fair value, if these are current liabilities.

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 Ukraine.

Income tax rate of 15% has been introduced starting from 1 January 2010 for companies operating in the Republic of Lithuania. Standard income tax rate in Ukraine for the year 2012 was 21% (until 1 April 2011 – 25%, after 1 April 2011 – 23%).

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 and for the losses accumulated in the Ukrainian company (under the Ukrainian law, losses can be carried forward for 4 years). 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 the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and can 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, except for inventories and deferred income tax, 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, 4, 6), amortisation (Note 2.7 and Note 5), valuation of buildings (Note 2.8, Note 4), non-current employee benefits (Note 2.18 and Note 15), impairment evaluation of goodwill (Note 2.4, Note 5), recognition of deferred income tax asset (Note 2.22, Note 23), and impairment evaluation of other assets (Note 2.24, Notes 7 and 8). 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. Accounting policies (cont'd)

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.

2.27. Comparative information

Where necessary comparative figures have been adjusted to conform to changes in presentation of all Group companies in the current year. In the financial statements of the Group, the amount of LTL 5,979 thousand was reclassified from cost of sales: the amount of LTL 5,290 thousand related to transportation expenses was transferred to selling and distribution expenses, and the amount of LTL 689 thousand related to depreciation and salaries' expenses was transferred to general and administrative expenses. Therefore, amounts of cost of sales, selling and distribution expenses and general and administrative expenses, presented in the Consolidated Statement of comprehensive income for the year 2011, amounts of cost of sales of 'Raw material for corrugated cardboard and related production' in segment information (Note 17) and related notes for selling and distribution expenses (Note 20) and general and administrative expenses (Note 21) were changed to conform with current year presentation.

2.28. Discontinued (transferred) operations

As disclosed in Note 1, following the Board decision made on 1 December 2011, AB Grigiškės transferred one of its segments – the production of wood fibre board – to 100% owned subsidiary UAB Baltwood, in exchange for newly issued shares of the subsidiary. Comparative year revenue, expenses and result after taxes were 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). Current year Statement of comprehensive income includes revenue, expenses and result after taxes for continuing operations.

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. Financial assets and liabilities and risk management

Credit risk

The Group and the Company does not have any significant concentration of trading counterparties. Group receivables from two major customers as at 31 December 2012 amounted to 9.26% and 2.91% respectively (9.13% and 4.61% as at 31 December 2011) of the total Group's trade receivables. Company's receivables from two major customers as at 31 December 2012 amounted to 20.86% and 8.39% respectively (16.71% and 6.19% as at 31 December 2011) 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.

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3. 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 2012 and 2011 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	-	3,153,898	35,337,649	40,552,239	13,115,446	92,159,232
Financial lease obligations	-	964,851	2,371,811	3,274,114	-	6,610,776
Trade payables	-	32,807,272	-	-	-	32,807,272
Other current liabilities	1,207,983	620,585	-	-	-	1,648,568
Balance as at 31 December 2012	1,027,983	37,546,606	37,709,460	43,826,353	13,115,446	133,225,848
Interest bearing borrowings	-	3,256,078	18,852,885	54,636,443	19,837,537	96,582,943
Financial lease obligations	-	927,836	2,972,887	4,177,003	-	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	21,825,772	58,813,446	19,837,537	140,612,850

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2012 and 2011 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	-	1,126,734	20,876,166	11,746,893	-	33,749,793
Financial lease obligations	-	800,292	2,032,403	2,942,712	-	5,775,407
Payables to related parties	-	3,168,569	-	-	-	3,168,569
Trade payables	-	11,035,331	-	-	-	11,035,331
Other current liabilities	472,690	144,080	-	-	-	616,770
Balance as at 31 December 2012	472,690	16,275,006	22,908,569	14,689,605	-	54,345,870
Interest bearing borrowings	-	774,032	9,423,710	17,054,209	-	27,251,951
Financial lease obligations	-	819,865	2,210,517	3,738,146	-	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	11,634,227	20,792,355	-	48,653,824

The interest payments on variable interest rate loans in the table above reflect average market interest rates at the period end, and these amounts may change as market interest rates change. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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

Liquidity risk (cont'd)

As described in Note 2.2., as at 31 December 2012 current liabilities of the Group and the Company exceeded its current assets. The Company uses overdrafts and other short-term credits; furthermore as described in Note 28, some repayment terms for the current loans have been already rescheduled subsequently and other are planned to be rescheduled.

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 LIBOR, EURIBOR and VILIBOR, which creates an interest rate risk (Notes 13 and 14). There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as at 31 December 2012 and 2011.

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

	Increase/decrease in basis points	Effect on the profit before the income tax
2012		
EUR	+100	(577,996)
EUR	-100	577,996
LTL	+100	(364,169)
LTL	-100	364,169
2011		
EUR	+100	(656,543)
EUR	-100	656,543
LTL	+100	(309,952)
LTL	-100	309,952

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.

	Increase/decrease in basis points	Effect on the profit before the income tax
2012		
EUR	+100	(107,073)
EUR	-100	107,073
LTL	+100	(277,597)
LTL	-100	277,597
2011		
EUR	+100	(133,005)
EUR	-100	133,005
LTL	+100	(191,497)
LTL	-100	191,497

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

Foreign exchange risk

The Company's monetary assets and liabilities as at 31 December 2012 and 2011 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 2012 were as follows (equivalent in LTL):

Group	UAH	USD	EUR	LTL	Other
Receivables	3,203,043	-	10,836,594	16,799,217	154,320
Cash and cash equivalents	359,410	-	431,822	448,345	-
Borrowings and financial lease obligations	-	-	57,545,835	36,670,707	-
Payables	591,267	289,414	8,709,103	32,571,493	1,040

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	-

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:

2012	Increase/decrease in basis points	Effect on the profit before the income tax
USD	+10	(28,941)
USD	-10	28,941
UAH	+10	297,119
UAH	-10	(297,119)
2011		
USD	+10	(91,817)
USD	-10	91,817
UAH	+10	160,971
UAH	-10	(160,971)

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:

- The carrying amount of current trade and other accounts receivable, current accounts payable and short-term borrowings approximates fair value;
- 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.

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3. 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	
	2012	2011	2012	2011
Financial assets				
Cash	1,239,577	2,134,809	1,239,577	2,134,809
Receivables from related parties (including loans granted)	1,492	1,254	1,492	1,254
Trade receivables and other receivables	30,992,182	30,451,289	30,992,182	30,451,289
Financial liabilities				
Interest bearing loans and borrowings	87,777,664	89,693,824	87,777,664	89,693,824
Financial lease obligations	6,438,878	7,804,495	6,438,878	7,804,495
Trade payables	38,754,334	32,470,786	38,754,334	32,470,786
Payables to related parties	52,938	90,088	52,938	90,088
Other current liabilities	1,590,766	2,932,766	1,590,766	2,932,766

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	
	2012	2011	2012	2011
Financial assets				
Cash	195,749	71,238	195,749	71,238
Receivables from related parties (including loans granted)	1,241,277	3,781,079	1,241,277	3,781,079
Trade receivables	12,379,870	10,246,888	12,379,870	10,246,888
Non-current receivables	278,019	1,701,303	278,019	1,701,303
Financial liabilities				
Interest bearing loans and borrowings	32,839,245	25,887,786	32,839,245	25,887,786
Financial lease obligations	5,591,684	6,562,467	5,591,684	6,562,467
Trade payables	11,035,331	11,093,937	11,035,331	11,093,937
Payables to related parties	3,168,569	1,843,004	3,168,569	1,843,004
Other current liabilities	558,885	1,462,220	558,885	1,462,220

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4. 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 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	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
Additions	5,412,362	9,711,529	1,057,672	1,336,092	11,440,245	28,957,900
Disposals and write-offs	(40,200)	(5,225,639)	(623,055)	(107,595)	(105,280)	(6,101,769)
Transfer from construction in progress to property, plant and equipment and intangibles	7,888,321	8,621,439	26,999	100,797	(16,637,556)	-
Transfer from investment property (Note 6)	1,329,000	-	-	-	-	1,329,000
Reclassifications	-	-	-	-	-	-
Effect of foreign currency translation	(185,397)	(112,120)	(6,815)	(5,380)	-	(309,712)
Balance as at 31 December 2012	94,507,119	185,040,118	6,221,751	5,648,462	10,733,486	302,150,936
Accumulated depreciation and impairment:						
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
Depreciation	3,978,050	17,134,696	636,186	676,988	-	22,425,920
Impairment loss/(reversal)	(6,250)	-	-	-	-	(6,250)
Disposals and write-offs	(40,192)	(5,169,782)	(589,750)	(102,075)	-	(5,901,799)
Reclassifications	-	-	-	-	-	-
Effect of foreign currency translation	(40,870)	(40,807)	(1,165)	(3,121)	-	(85,963)
Balance as at 31 December 2012	12,763,760	102,009,792	3,965,428	3,389,756	-	122,128,736
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
Net book value as at 31 December 2012	81,743,359	83,030,326	2,256,323	2,258,706	10,733,486	180,022,200

* 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.

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4. 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 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
Transfer to subsidiary (Note 1)	(16,884,235)	(28,483,844)	(1,637,007)	(794,068)	-	(47,799,154)
Disposals and write-offs	(39,397)	(9,462,264)	(459,771)	(713,328)	-	(10,674,760)
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
Additions	5,442,214	8,677,837	209,865	549,580	8,866,038	23,745,534
Disposals and write-offs	(40,200)	(4,986,331)	(147,686)	(84,373)	-	(5,258,590)
Transfer from construction in progress to property, plant and equipment	7,055,182	7,669,400	26,999	7,682	(14,759,263)	-
Reclassifications	-	-	-	-	-	-
Balance as at 31 December 2012	32,777,206	113,404,902	2,087,855	2,780,544	9,803,525	160,854,032
Accumulated depreciation and impairment:						
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
Depreciation	1,283,784	10,170,992	270,488	249,000	-	11,974,264
Impairment loss/(reversal)	(6,250)	-	-	-	-	(6,250)
Disposals and write-offs	(40,192)	(4,940,079)	(147,282)	(83,279)	-	(5,210,832)
Reclassifications	-	-	-	-	-	-
Balance as at 31 December 2012	4,394,843	55,116,583	1,326,902	1,990,523	-	62,828,851
Net book value as at 31 December 2011	17,162,509	52,158,326	794,981	482,853	15,696,750	86,295,419
Net book value as at 31 December 2012	28,382,363	58,288,319	760,953	790,021	9,803,525	98,025,181

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

As at 31 December 2012 and 2011, 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 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Machinery and equipment	10,437,916	11,657,803	9,827,579	9,819,983
Vehicles	1,209,193	843,209	580,936	487,463
	11,647,109	12,501,012	10,408,515	10,307,446

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2012 amounts to LTL 22,849 thousand and LTL 11,974 thousand, respectively (LTL 21,765 thousand and LTL 13,766 thousand in the year 2011, respectively). Amounts of LTL 488 thousand and LTL 275 thousand for the year 2012 (LTL 421 thousand and LTL 182 thousand for the year 2011, respectively) have been included into general and administrative expenses in the Group's and the Company's statement of comprehensive income, respectively. LTL 296 thousand and LTL 113 thousand for the year 2012 (LTL 262 thousand and LTL 148 thousand in 2011) 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 2012, the part of the Group's and the Company's property, plant and equipment with a net book value of LTL 96,630 thousand and LTL 38,706 thousand, respectively (31 December 2011 – LTL 68,466 thousand and LTL 17,118 thousand, respectively) is pledged as a security for repayment of the loans granted by banks (Note 13).

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 26,996 thousand and LTL 19,285 thousand, respectively, were fully depreciated as at 31 December 2012 (LTL 23,670 thousand and LTL 22,519 thousand as at 31 December 2011, 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	2012			2011		
	Carrying amount	Total estimated costs of the project	Estimated date of completion	Carrying amount	Total estimated costs of the project	Estimated date of completion
Construction of the building for the corrugated cardboard production, industrial equipment relocation and installation of a new corrugating equipment	-	-	2012	13,051,984	22,000,000	2012
The production line	8,771,330	9,000,000	2013	-	-	-
Other projects	1,962,156	33,142,000	2013–2014	2,984,093	6,350,000	-
TOTAL:	10,733,486	20,431,250	-	16,036,077	28,350,000	-

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

Company	2012			2011		
	Carrying amount	Total estimated costs of the project	Estimated date of completion	Carrying amount	Total estimated costs of the project	Estimated date of completion
Construction of the building for the corrugated cardboard production, industrial equipment relocation and installation of a new corrugating equipment	-	-	2012	13,051,984	22,000,000	2012
The production line	8,771,330	9,000,000	2013	-	-	-
Other projects	1,032,195	11,970,000	2013–2014	2,644,766	6,000,000	-
TOTAL:	9,803,525	20,431,250	-	15,696,750	28,000,000	-

5. Intangible assets

Goodwill

On 1 March 2010, the Company acquired the AGR Prekyba group, consisting of UAB AGR Prekyba, UAB Avesko, AB Klaipėdos Kartonas and PAT Mena Pak.

At the acquisition of these subsidiaries goodwill of LTL 10,362,101 has been accounted for. The goodwill appeared due to expected synergies. Goodwill is not amortised, but tested annually for impairment.

For the purpose of impairment evaluation, the goodwill as at 31 December 2012 and 2011 was allocated to AB Klaipėdos Kartonas cash generating unit. The recoverable amount of cash generating unit as at 31 December 2012 and 2011 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 2012 and 2011 are described further.

The forecasted revenues were estimated based on the management assumptions as at 31 December 2012 and 2011 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 2012 and 2011.

The assessment of the recoverable amount of the CGU as at 31 December 2012 and 2011 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 2012 and 2011, 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.

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5 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 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
Additions	-	30,621	349,578	1,397,389	2,077,588
Disposals, write-offs	-	-	-	-	-
Reclassifications	-	-	8,819	(8,819)	-
Effect of foreign currency translation	-	-	590	-	590
Balance as at 31 December 2012	2,400,000	91,409	1,888,506	3,151,293	7,531,208
Accumulated amortisation:					
Balance as at 31 December 2010	195,555	56,218	750,070	8,728	1,010,571
Amortisation	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
Amortisation	26,666	3,368	169,307	514,586	713,927
Disposals, write-offs	-	-	-	-	-
Reclassifications	-	-	-	-	-
Balance as at 31 December 2012	248,888	64,135	1,019,236	527,038	1,859,297
Net book value as at 31 December 2011	2,177,778	21	380,185	1,750,272	4,308,256
Net book value as at 31 December 2012	2,151,112	27,274	869,270	2,624,255	5,671,911

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5 Intangible assets (cont'd)

Company	Licenses, patents	Software	Other assets and prepayments	TOTAL:
Cost:				
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
Additions	30,621	594,941	637,056	1,262,618
Disposals, write-offs	-	-	-	-
Reclassifications	-	8,819	(8,819)	-
Balance as at 31 December 2012	91,409	1,597,958	660,968	2,350,335
Accumulated amortisation:				
Balance as at 31 December 2010	56,218	724,182	8,727	789,127
Amortisation	-	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
Amortisation	3,368	86,422	78,987	168,777
Disposals, write-offs	-	-	-	-
Reclassifications	-	-	-	-
Balance as at 31 December 2012	64,135	882,272	91,438	1,037,845
Net book value as at 31 December 2011	21	198,348	20,280	218,649
Net book value as at 31 December 2012	27,274	715,686	569,530	1,312,490

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 2012 was fully amortised (LTL 447 thousand and LTL 325 thousand as at 31 December 2011, respectively) but was still in use.

As at 31 December 2012 and 31 December 2011, the Group's land lease rights with a carrying value of LTL 2,151 thousand are pledged as a security for repayment of the loan granted by banks (Note 13).

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6. Investment property

Group

Cost:	Buildings
Balance as at 31 December 2011	4,949,000
Additions	-
Reclassification to property, plant and equipment	(1,329,000)
Balance as at 31 December 2012	<u>3,620,000</u>
Accumulated depreciation:	
Balance as at 31 December 2011	226,209
Depreciation	213,571
Reclassification to property, plant and equipment	(57,426)
Balance as at 31 December 2012	<u>382,354</u>
Net book value as at 31 December 2011	<u>4,722,791</u>
Net book value as at 31 December 2012	<u>3,237,646</u>

Company

Cost:	Buildings
Balance as at 31 December 2011	4,949,000
Additions	-
Disposals	(1,329,000)
Balance as at 31 December 2012	<u>3,620,000</u>
Accumulated depreciation:	
Balance as at 31 December 2011	226,209
Depreciation	213,571
Disposals	(57,426)
Balance as at 31 December 2012	<u>382,354</u>
Net book value as at 31 December 2011	<u>4,722,791</u>
Net book value as at 31 December 2012	<u>3,237,646</u>

In September 2012, the Company transferred the building amounting to LTL 2,800 thousand to related party UAB Klaipėda Recycling in order to increase the share capital of this company. The building was reclassified to property, plant and equipment in the Group's financial statements, as the building is used for storage of waste-paper.

Investment property represents buildings, located at Vilniaus St. 10 and Popieriaus St. in Naujieji Verkiai.

As at 31 December 2012 and 2011 investment property fair value approximates its net book value. The cost of investment property was determined based on the independent valuation of the property carried out on 31 December 2010. In the Management's assessment, the changes in the real estate market during 2011 and 2012 did not have significant impact on the net book value of the investment property.

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7. Inventories

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Raw materials	7,860,870	9,367,564	2,819,529	2,300,254
Work in progress	2,971,383	5,060,106	1,205,458	1,757,314
Finished goods	9,827,078	9,484,169	2,622,842	1,482,926
Goods in transit	638,260	626,540	70,075	40,315
TOTAL:	21,297,591	24,538,379	6,717,904	5,580,809

The initial cost value of the Group's and the Company's inventories accounted for at net realisable value as at 31 December 2012 amounted to LTL 882 thousand and LTL 833 thousand, respectively (31 December 2011 – LTL 1,434 thousand and LTL 765 thousand, respectively).

As described in the Note 13, as at 31 December 2012 the Group and the Company have pledged inventory with a carrying value LTL 10,000 thousand and LTL 4,000 thousand respectively (31 December 2011 – LTL 10,000 thousand and LTL 5,581 thousand, respectively) as a collateral to the banks for the loans received.

8. Accounts receivable

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Trade receivables, gross	27,755,982	27,018,143	13,659,466	13,169,055
Other receivables, gross	3,938,592	4,130,404	257,240	1,015,025
	31,694,574	31,148,547	13,916,706	14,184,080
Less: allowance for doubtful trade receivables	(700,900)	(696,004)	(295,559)	(154,113)
Total amounts receivable within one year:	30,993,674	30,452,543	13,621,147	14,029,967

Change in allowance for doubtful trade receivables for the year 2012 and 2011 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 3. Information on receivables from related parties is presented under Note 26. As at 31 December 2012 and 2011 Group's and the Company's trade receivables were pledged to banks as a collateral for the loans received (Note 13).

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8. Accounts receivable (cont'd)

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

	Group		Company	
	2012	2011	2012	2011
Balance as at 1 January	696,004	1,036,432	154,113	827,923
Charge for the year	141,446	525,512	141,446	154,113
Reversed during the year	(131,837)	(593,361)		(555,344)
Receivables written off as uncollectible	(4,713)	(272,579)		(272,579)
Balance as at 31 December	700,900	696,004	295,559	154,113

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

	Trade receivables past due but not impaired						Total
	Trade receivables neither past due nor impaired	Less than 30 days	30–60 days	60–90 days	90–360 days	More than 360 days	
2011	24,493,518	4,682,197	701,177	117,442	458,269	-	30,452,543
2012	25,661,403	4,450,647	654,708	211,406	15,510	-	30,993,674

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

	Trade receivables past due but not impaired						Total
	Trade receivables neither past due nor impaired	Less than 30 days	30–60 days	60–90 days	90–360 days	More than 360 days	
2011	11,356,591	1,663,492	157,217	301,093	551,574	-	14,029,967
2012	11,692,937	1,766,525	147,703	12,226	1,756	-	13,621,147

9. Cash and cash equivalents

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Cash at bank	1,230,284	2,097,414	190,585	43,517
Cash on hand	9,293	37,395	5,164	27,721
TOTAL:	1,239,577	2,134,809	195,749	71,238

As at 31 December 2012 and 2011 the major part of bank accounts of the Group and the Company are pledged to banks for loans, as described further in Note 13. As at 31 December 2012 and 2011, there were no restrictions on use of cash balances held in the pledged accounts.

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10. Share capital and reserves

Share capital

The share capital of the Company was LTL 60,000 thousand as at 31 December 2012 and as at 31 December 2011. 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 2012 and 2011.

As at 31 December 2012 and 31 of December 2011 the shareholders of the Company were:

	2012		2011	
	Number of shares	Proportion of ownership, %	Number of shares	Proportion of ownership, %
Lithuanian legal entities	29,813,275	49.69	29,839,973	49.73
Lithuanian individuals	22,147,541	36.91	21,827,685	36.38
Foreign legal entities	7,755,490	12.93	8,124,108	13.54
Foreign individuals	283,694	0.47	208,234	0.35
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
Mišėikienė Irena Ona	8,731,686	14.55	8,731,686	14.55
TOTAL:	43,643,881	72.74	43,643,881	72.74

10. Share capital and reserves (cont'd)

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).

11. 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, attributable to equity holders of the parent, 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 2012 and 2011.

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 2012 and 2011 the Company was not in breach of the above mentioned requirement.

The subsidiary UAB Baltwood as at 31 December 2011 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	
	2012	2011	2012	2011
Non-current liabilities (excluding grants and deferred tax liability)	54,748,205	74,374,928	14,438,199	20,046,138
Current liabilities	83,040,328	66,801,118	42,370,711	29,296,840
Liabilities	137,788,533	141,176,046	56,808,910	49,342,978
Equity, attributable to equity holders of the parent	104,005,433	95,518,844	99,725,100	92,443,232
Debt to equity ratio	132%	148%	57%	53%

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12. Grants and subsidies

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

	Group	Company
Balance as at 31 December 2010	8,410,520	8,410,520
Received	948,295	948,295
Amortisation	(626,524)	(626,524)
Balance as at 31 December 2011	8,732,291	8,732,291
Received	449,920	326,560
Amortisation	(967,495)	(959,271)
Balance as at 31 December 2012	8,214,716	8,099,580

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. In 2012 the Company received a part of grant for working conditions – micro-climate improvement project. According to the project conditions the rest part of the grant amounting to LTL 131 thousand will be received in 2013.

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.

13. Borrowings

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Non-current borrowings:				
Bank borrowings secured by the Group assets	50,728,916	69,533,156	11,217,373	16,249,993
	50,728,916	69,533,156	11,217,373	16,249,993
Current borrowings:				
Current portion of non-current bank borrowings secured by the Group assets	14,285,395	12,023,517	7,265,599	3,500,642
Current bank borrowings secured by the Group assets	22,763,353	8,137,151	14,356,273	6,137,151
	37,048,748	20,160,668	21,621,872	9,637,793
TOTAL:	87,777,664	89,693,824	32,839,245	25,887,786

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

	Group		Company	
	2012	2011	2012	2011
LTL	36,416,925	30,995,201	27,759,655	19,149,741
EUR	51,360,739	58,147,368	5,079,590	6,738,045
USD	-	551,255	-	-
TOTAL:	87,777,664	89,693,824	32,839,245	25,887,786

Total unutilized overdraft of the Group and the Company as at 31 December 2012 amounted to LTL 3,686 thousand and LTL 897 thousand, respectively (for the Group and the Company – LTL 9,450 thousand as at 31 December 2011).

Information on borrowings from related parties is presented under Note 26.

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13. Borrowings (cont'd)

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 2011 the Company and the Group complied with all the mentioned debt covenants.

As at 31 December 2012 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 2012 the weighted average annual interest rate of borrowings outstanding of the Company and the Group was 1.95% and 2.53%, respectively (3.30% and 2.99%, respectively, as at 31 December 2011). In 2012 and 2011, the period of re-pricing of floating interest rates on borrowings varies from 1 day to 12 months.

For analysis of liquidity risk please refer to Note 3.

Pledged assets

For the loans from banks the Group and the Company have pledged property, plant and equipment (Note 4), intangible assets (Note 5), inventories (Note 7), trade accounts receivable (Note 8), bank accounts (Note 9), 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 2012:

Group	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	LTL	VILIBOR	2013	8,106,272
Overdraft	LTL	VILIBOR	2013	309,083
Overdraft	EUR	EURIBOR	2013	1,297,997
Secured bank loan	LTL	VILIBOR	2013–2018	13,403,383
Secured bank loan	EUR	EURIBOR	2012–2013	4,631,310
Secured bank loan	LTL	VILIBOR	2013	6,250,000
Secured bank loan	EUR	LIBOR	2012–2014	448,280
Secured bank loan	LTL	VILIBOR	2013	6,800,000
Secured bank loan	LTL	VILIBOR	2013–2015	1,500,012
Secured bank loan	LTL	VILIBOR	2013	48,176
Secured bank loan	EUR	EURIBOR	2012–2019	44,983,151
TOTAL:				87,777,664

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13. Borrowings (cont'd)

Company	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	LTL	VILIBOR	2013	8,106,272
Secured bank loan	EUR	EURIBOR	2012–2013	4,631,310
Secured bank loan	LTL	VILIBOR	2013–2018	13,403,383
Secured bank loan	LTL	VILIBOR	2013	6,250,000
Secured bank loan	EUR	LIBOR	2012–2014	448,280
TOTAL:				32,839,245

The following interest rates 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

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13. Borrowings (cont'd)

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

Year	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Within one year	14,285,395	12,023,517	7,265,600	3,500,642
In the period of five years	31,450,453	50,254,693	11,217,373	16,249,993
After 5 years	19,278,463	19,278,463	-	-
	65,014,311	81,556,673	18,482,973	19,750,635

14. Financial lease obligations

The assets leased by the Group and the Company under financial lease contracts mainly consist of vehicles, machinery and equipment. The terms of the financial lease agreements are from 2 to 5 years. The currency of the financial lease agreements is EUR.

As at 31 December 2012 the interest rate on the financial lease obligations fluctuates from 6 month EURIBOR or 3–6 months EUR LIBOR (as at 31 December 2011 – fluctuates from 6 to 12 month EURIBOR or 6 month EUR LIBOR).

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

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Within one year	3,336,662	3,900,723	2,832,695	3,030,382
From one to five years	3,274,114	4,177,003	2,942,712	3,738,146
Total financial lease obligations	6,610,776	8,077,726	5,775,407	6,768,528
Interest	(171,898)	(273,231)	(147,723)	(206,061)
Present value of financial lease obligations	6,438,878	7,804,495	5,627,684	6,562,467

Financial lease obligations are accounted as:

- current	3,254,648	3,752,086	2,762,658	2,936,417
- non-current	3,184,230	4,052,409	2,865,026	3,626,050

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 4).

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15. Non-current employee benefits

As at 31 December 2012 and 2011 the Group and the Company accounted for non-current employee benefits for employees leaving the Group or the Company at the age of retirement. Related expenses are included into operating expenses in the Group's and the Company's statements of comprehensive income.

	<u>Group</u>	<u>Company</u>
As at 31 December 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	<u>789,363</u>	<u>170,095</u>
Change during the year 2012	(140,755)	(746)
As at 31 December 2012	<u><u>648,608</u></u>	<u><u>169,349</u></u>

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

	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>
Discount rate	4.58%	5.71%
Anticipated annual salary increase	5.00%	3.00%

16. Trade and other payables

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

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

	<u>Group</u>		<u>Company</u>	
	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>	<u>As at 31 December 2012</u>	<u>As at 31 December 2011</u>
Trade payables	32,807,272	32,560,874	14,203,900	12,936,941
Taxes, salaries and social insurance	6,626,734	5,363,556	2,427,363	1,900,804
Advances received	1,079,743	1,441,846	244,263	105,793
Other payables	1,648,568	3,391,307	616,770	1,696,404
TOTAL:	<u><u>42,162,317</u></u>	<u><u>42,757,583</u></u>	<u><u>17,492,296</u></u>	<u><u>16,639,942</u></u>

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17. Segment information

Operating segments

For decision taking 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 2012

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard and related production	Unallocated	TOTAL:
Sales	71,481,074	75,904,591	141,679,995	450,906	289,516,566
Cost of sales	(54,515,940)	(63,198,880)	(125,891,123)	(364,083)	(243,970,026)
Gross profit	16,965,134	12,705,711	15,788,872	86,823	45,546,40
Depreciation and amortisation Segment property, plant and equipment, investment property and intangible assets	6,787,025	4,358,049	7,862,588	4,345,756	23,353,418
Goodwill	-	-	10,362,101	-	10,362,101
Segment capital expenditure	14,926,127	1,782,696	13,874,431	452,234	31,035,488

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	307,677,661
Cost of sales	(66,735,178)	(64,637,960)	(123,601,509)	(6,092,999)	(261,067,646)
Gross profit	11,202,671	10,715,231	24,369,763	322,350	46,610,015
Depreciation and amortisation Segment property, plant and equipment, investment property and intangible assets	6,041,858	5,803,923	7,110,707	3,178,172	22,134,660
Goodwill	-	-	10,362,101	-	10,362,101
Segment capital expenditure	4,127,459	4,953,891	19,562,038	2,401,464	31,044,852

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 2012 – LTL 451 thousand and for 2011 – LTL 6,415 thousand).

² Unallocated cost of sales include costs related to unallocated sales (for 2012 – LTL 364 thousand and for 2011 – LTL 6,093 thousand), identifiable as expenses for purchases of wood and gas needed for energy production.

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

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17. Segment information (cont'd)

Company 2012

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard, and related production	Unallocated	TOTAL:
Sales	71,481,074	-	18,274,698	21,295,223	111,050,995
Cost of sales	(54,515,940)	-	(16,631,424)	(19,803,202)	(90,950,566)
Gross profit	16,965,134	-	1,643,274	1,492,021	20,100,429
Depreciation and amortisation	6,787,025	-	1,223,832	4,345,755	12,356,612
Segment property, plant and equipment, investment property and intangible assets	48,891,243	-	21,994,752	31,689,322	102,575,317
Segment capital expenditure	14,926,127	-	9,629,791	452,234	25,008,152

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 amortisation	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

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 2012 – LTL 21,295 thousand and for 2011 – LTL 6,415 thousand).

² Unallocated cost of sales include costs related to unallocated sales (for 2012 – LTL 19,803 thousand and for 2011 – LTL 6,093 thousand), identifiable as expenses for purchases of wood needed for energy production and other utilities services.

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

Payroll related expenses included in the Group's and Company's cost of sales in 2012 amounts to LTL 25,678 thousand and LTL 9,528 thousand, respectively (in 2011 – LTL 27,538 thousand and LTL 15,158 thousand, respectively).

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17. 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	
	2012	2011	2012	2011
Domestic market (Lithuania)	90,643,046	92,286,082	64,290,786	58,412,986
Foreign market				
Latvia	28,452,448	27,249,839	11,437,103	15,545,333
Poland	45,856,748	64,891,390	2,021,992	28,551,603
Sweden	14,437,530	10,499,733	6,347,023	10,499,733
Denmark	12,143,960	10,520,805	10,039,967	10,254,475
Estonia	20,202,571	13,467,921	7,710,772	7,628,431
The Netherlands	1,859,766	2,527,678	55,875	2,469,150
Slovakia	3,477,400	4,314,106	2,499,250	4,314,106
Finland	5,794,292	3,145,629	1,167,916	3,145,629
Great Britain	-	6,291,616	-	6,291,616
Norway	625,183	755,161	625,183	755,161
Czech Republic	5,839,039	13,784,310	274,585	6,301,183
Germany	2,310,337	4,771,510	50,293	960,294
Belarus	8,420,488	4,050,368	1,351,636	891,727
Italy	2,277,814	1,429,066	-	-
Hungary	1,946,765	1,120,551	319,235	516,144
France	2,637,011	2,176,345	-	-
Russia	4,559,908	7,617,808	1,419,975	-
Ukraine	35,953,818	32,325,995	639,381	-
Other countries	2,078,442	4,451,748	800,023	2,739,968
Foreign market, total	198,873,520	215,391,579	46,760,209	100,864,553
TOTAL:	289,516,566	307,677,661	111,050,995	159,277,539

Property, plant and equipment and investment property location:

	Group		Company	
	2012	2011	2012	2011
Lithuania	175,661,538	168,746,636	101,262,827	91,018,210
Ukraine	7,598,308	8,554,844	-	-
TOTAL:	183,259,846	177,301,480	101,262,827	91,018,210

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18. Other operating income

	Group		Company	
	2012	2011	2012	2011
Gain from sale of emission allowances	-	2,370,751	-	2,370,751
Rental income	480,038	683,730	455,670	683,730
Income from sale of scrap	303,495	341,784	162,459	185,004
Insurance compensations	368,434	32,286	310,901	-
Gain from disposal of property, plant and equipment	880,767	110,479	2,277,421	110,479
Other income	314,503	457,894	304,015	544,408
TOTAL:	2,347,237	3,996,924	3,510,466	3,894,372

The Company's gain from disposal of property, plant and equipment is mainly related to sale of investment property to the related company (Note 6).

19. Other operating expenses

	Group		Company	
	2012	2011	2012	2011
Expenses related to rented property	141,876	169,662	141,876	169,662
Insurance expenses	476,217	-	421,621	-
Other expenses	211,885	82,680	244,275	61,863
TOTAL:	829,978	252,342	807,772	231,525

20. Selling and distribution expenses

	Group		Company	
	2012	2011	2012	2011
Fuel and transportation services	14,692,056	12,852,390	2,886,171	6,308,130
Salaries and related expenses	3,312,382	2,980,941	1,882,375	2,144,026
Mediation, marketing, promotion and representation	2,233,303	1,557,708	1,985,171	1,494,690
Repairs and maintenance	401,701	473,633	283,301	309,134
Depreciation and amortisation	295,764	261,809	112,940	148,481
Other sales expenses	645,492	668,681	249,265	580,358
TOTAL:	21,580,698	18,795,162	7,399,223	10,984,819

Selling and distribution expenses related to:

continuing operations

7,399,223

6,527,456

discontinued operations

-

4,457,363

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21. General and administrative expenses

	Group		Company	
	2012	2011	2012	2011
Salaries and related expenses	6,199,544	5,843,511	2,977,664	3,537,142
Taxes, except for income tax	1,272,968	1,354,787	584,258	846,189
Fuel and transportation services	172,915	204,117	103,651	118,423
Bank charges	157,810	212,031	65,819	131,551
Asset repair and maintenance	656,725	565,393	443,658	448,168
Depreciation and amortisation	689,162	563,650	362,525	270,791
Security services	339,531	416,238	154,460	312,198
Insurance services	374,071	314,173	130,539	167,810
Consulting services	184,415	188,700	142,380	188,700
Communication services	141,991	150,418	54,434	74,600
Professional services	270,127	299,529	229,752	184,886
Advertising and representation	146,289	171,006	80,146	123,519
Support	186,549	67,217	174,758	62,870
Listing of the Securities and related costs	105,684	113,669	101,575	106,936
Other administrative expenses	1,385,054	1,810,927	586,870	24,734
TOTAL:	12,282,835	12,275,366	6,192,489	6,598,517
<i>General and administrative expenses related to:</i>				
<i>continuing operations</i>	-	-	6,192,489	5,216,943
<i>discontinued operations</i>	-	-	-	1,381,574

22. Finance income and expenses, net

	Group		Company	
	2012	2011	2012	2011
Interest income	13,865	141,173	13,196	3,612
Foreign exchange gains, net value	448,386	-	448,386	-
Other finance income (Note 1)	70,147	14,584	45,259	5,839,973
Total finance income	532,398	155,757	506,841	5,843,585
Interest on loans and leases	(2,443,482)	(3,136,315)	(990,120)	(1,265,123)
Net foreign exchange losses	(583,399)	(4,140,540)	-	(89,046)
Other finance expenses	(63,364)	(99,026)	(10,131)	(54,798)
Total finance expenses	(3,090,245)	(7,375,881)	(1,000,251)	(1,408,967)
Finance income and expenses, related to discontinued operations	-	-	-	5,360,421
Finance income and expenses, net	(2,557,847)	(7,220,124)	(493,410)	(925,803)

Foreign exchange loss in the Group in 2012 and 2011 is generated by subsidiary PAT Mena Pak which is operating in Ukraine.

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23. Income tax

Components of income tax expenses	Group		Company	
	2012	2011	2012	2011
Current income tax	1,110,112	1,480,754	816,746	648,741
Correction of income tax for previous periods	(7,510)	(64,059)	(9,350)	(40,616)
Deferred income tax (income)	209,276	(2,137,006)	(571,263)	(655,487)
Income tax expenses (income) recorded in the statement of comprehensive income	1,311,878	(720,311)	(236,133)	(47,362)

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 pre-tax income as follows:

	Group		Company	
	2012	2011	2012	2011
Profit before tax	10,642,419	12,063,945	8,718,001	13,487,658
Income tax expenses computed at 15%	1,596,363	1,809,592	1,307,700	2,023,149
Effect of higher tax rate in Ukraine	62,193	72,059	-	-
Effect of change in tax rate	-	(243,386)	-	-
Change in deferred tax asset valuation allowance	(149,549)	(1,405,998)	(149,549)	(929,672)
Correction of income tax for previous periods	(7,510)	(64,059)	(9,350)	(40,616)
Utilized tax incentive due to investment projects	(999,745)	(303,739)	(999,745)	(303,739)
Permanent differences	810,126	(584,780)	87,077	(796,484)
Income tax expenses reported in the statement of comprehensive income	1,311,878	(720,311)	(236,133)	(47,362)

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Deferred income tax asset				
Allowance for accounts receivable	111,597	138,597	44,334	38,204
Investment incentive	833,250	650,254	833,250	650,254
Write-down of inventories to net realisable value	132,254	213,705	124,991	113,416
Non-current employee benefits	97,291	118,405	25,402	25,514
Vacation accrual	371,455	347,562	179,797	158,926
Tax loss carry forward	330,660	837,063	-	-
Other accruals	3,381	310,371	-	-
Deferred income tax asset before valuation allowance	1,879,888	2,615,957	1,207,774	986,314
Less: valuation allowance	(169,325)	(318,874)	(169,325)	(318,874)
Deferred income tax asset, net of valuation allowance	1,710,563	2,297,083	1,038,449	667,440
Deferred income tax liability				
Intangible assets (land lease)	(322,667)	(326,667)	-	-
Property, plant and equipment (investment incentive)	(219,888)	(267,768)	(116,602)	(149,606)
Property, plant and equipment revaluation (deemed cost)	(3,112,101)	(3,405,004)	(712,926)	(878,300)
Property, plant and equipment (repairs incentive)	(55,271)	(57,148)	(55,271)	(57,147)
Other	-	(30,584)	-	-
Deferred income tax liability	(3,709,927)	(4,087,171)	(884,799)	(1,085,053)
Deferred income tax, net	(1,999,364)	(1,790,088)	153,650	(417,613)

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23. 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 2010	Recognised in statement of comprehensive income	As at 31 December 2011	Recognised in statement of comprehensive income	As at 31 December 2012
Intangible assets	(2,204,445)	26,665	(2,177,780)	26,667	(2,151,113)
Property, plant and equipment (investment incentive)	(2,117,749)	332,627	(1,785,122)	319,198	(1,465,924)
Property, plant and equipment Investment incentive	(28,856,161)	6,156,587	(22,699,574)	1,952,234	(20,747,340)
Property, plant and equipment (repairs incentive)	6,635,040	(2,300,011)	4,335,029	1,219,971	5,555,000
Non-current employee benefits Allowance for accounts receivable	(393,496)	12,511	(380,985)	12,511	(368,474)
Write-down to net realisable value	730,067	59,301	789,368	(140,760)	648,608
Vacation accrual	1,396,185	(472,208)	923,977	(179,998)	743,979
Tax loss carry forward	860,669	564,030	1,424,699	(543,006)	881,693
Other	4,013,561	(1,696,481)	2,317,080	159,289	2,476,369
Total temporary differences before valuation allowance	5,809,804	(229,384)	5,580,420	(3,376,020)	2,204,400
Valuation allowance	(319,033)	2,184,280	1,865,247	(1,842,251)	22,542
Total temporary differences	(14,445,558)	4,637,917	(9,807,641)	(2,392,165)	(12,200,260)
Deferred income tax, net	(11,734,919)	9,609,094	(2,125,825)	996,993	(1,128,832)
Change in temporary differences	(26,180,477)	14,247,011	(11,933,466)	(1,395,172)	(13,329,092)
Deferred income tax, net	(3,927,139)	2,137,006	(1,790,088)	(209,276)	(1,999,364)
Change in temporary differences		2,137,006		(209,276)	

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23. 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 2010	Recognised in statement of comprehensive income	Transferred to subsidiary (Note 1)	As at 31 December 2011	Recognised in statement of comprehensive income	As at 31 December 2012
Property, plant and equipment (investment incentive)	(2,117,749)	332,625	787,749	(997,375)	220,024	(777,351)
Property, plant and equipment	(13,047,594)	680,673	6,512,042	(5,854,879)	1,102,039	(4,752,840)
Investment incentive	6,635,040	(2,300,011)	-	4,335,029	1,219,971	5,555,000
Property, plant and equipment (repairs incentive)	(393,496)	12,511	-	(380,985)	12,511	(368,474)
Non-current employee benefits	370,053	(853)	(199,105)	170,095	(746)	169,349
Allowance for accounts receivable	827,923	(573,233)	-	254,690	40,869	295,559
Write-down of inventories to net realisable value	860,669	(104,563)	-	756,106	77,167	833,273
Vacation accrual	1,503,304	124,940	(568,737)	1,059,507	139,143	1,198,650
Total temporary differences before valuation allowance	(5,361,850)	1,827,911	6,531,949	(657,812)	2,810,978	2,153,166
Valuation allowance	(8,323,641)	6,197,816	-	(2,125,825)	997,442	(1,128,832)
Total temporary differences	(13,685,491)	4,369,905	6,531,949	(2,783,637)	3,808,420	1,024,334
Deferred income tax, net	(2,052,891)	655,487	979,791	(417,613)	571,263	153.650
Change in temporary differences		655,487			571,263	

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15% rate in 2012 and 2011. The deferred tax of company operating in Ukraine was calculated using 21% tax rate in 2012, 25% in 2011. The expiry date of deferred tax asset from investment incentive is the end of year 2014.

24. 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	
	2012	2011
Net profit (loss) attributable to the shareholders	9,358,500	12,654,614
Average number of ordinary shares	60,000,000	60,000,000
Earnings per share	0.16	0.21

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25. Dividends per share

	<u>2012</u>	<u>2011</u>
Approved dividends*	1,200,000	1,200,000
Number of shares**	60,000,000	60,000,000
Approved dividends per share (LTL)	<u>0.02</u>	<u>0.02</u>

* The year when the dividends are approved.

** At the date when dividends are approved.

26. 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 2012 and 2011 the Group had no guarantees or pledges given or received in respect of the related party payables and receivables. The Company as at 31 December 2012 and 2011 had a guarantee issued to the bank to secure the loans of LTL 11,845 thousand and financial lease of LTL 251 thousand (31 December 2011 – LTL 2,800 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 2012

	Sale of goods and services	Purchase of goods and services	Amounts receivable	Amounts payable
UAB Ginvildos investicija	32	148,180	-	52,938
UAB Didma	1,573	133,275	-	-
UAB Naujieji Verkliai	12,024		1,492	
TOTAL:	13,629	281,455	1,492	52,938

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26. Related party transactions (cont'd)

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

Company 2012

	Sale of goods and services	Purchase of goods and services	Amounts receivable	Amounts payable
UAB Baltwood	21,009,321	9,248,462	1,166,340	-
UAB Ginvildos investicija	32	148,180	-	52,938
UAB Didma	1,573	133,275	-	-
UAB Klaipėda Recycling	2,828,974	220,450	54,170	-
AB Klaipėdos Kartonas	159,493	11,260,148	19,275	3,115,631
UAB Naujieji Verkiai	12,024	-	1,492	-
TOTAL:	24,011,417	21,010,515	1,241,277	3,168,569

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

Sales to UAB Baltwood mainly include sales of heating energy (steam) and other utilities services. Purchases from UAB Baltwood include purchases of packaging materials and biofuel.

Sales to UAB Klaipėda Recycling include sold investment property for LTL 2,800 thousand.

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.

26 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	
	2012	2011	2012	2011
Management remuneration	2,191,983	1,901,055	931,135	1,144,661
Average number of managers	17	15	6	8

In 2012 and 2011 the management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued. In 2012 the Company paid bonuses to its Supervisory Board and Management Board in total amount of LTL 120 thousand (in 2011 – LTL 100 thousand).

27. Off-balance sheet items

Information on emission allowances

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

The Company received 256,626 units of emission allowances for the period 2008–2012. In addition total of 100,602 units were received from a reserve in 2009 and 2012 for usage till the end of 2012. The number of rights is equally apportioned for each year.

Emission allowances	Quantity (unaudited)	
	Group	Company
As at 31 December 2010	(36,157)	(35,359)
Emission allowances allocated	105,267	72,954
Purchase of emission allowances	40,000	40,000
Emission allowances used	(49,021)	(13,985)
Sale of emission allowances	(70,000)	(70,000)
As at 31 December 2011	(9,911)	(6,390)
Emission allowances allocated	126,393	94,081
Purchase of emission allowances	-	-
Emission allowances used	(25,109)	(51)
Sale of emission allowances	-	-
As at 31 December 2012	91,373	87,640

The shortage of emission allowances as at 31 December 2011 was covered from allowances received in 2012 before reporting to the regional environment protection department. In 2012, the Company used mainly bio-fuel boiler, therefore the usage of emission allowances was lower, if compared to 2011.

28. Subsequent events

On 15 January 2013, the Company signed the amendment to agreement with AS UniCredit Bank Lithuanian branch on overdraft facility of LTL 4,000 thousand (outstanding balance as at 31 December 2012 – LTL 3,900 thousand (Note 13)), according to which the term of the overdraft repayment was extended to 15 April 2013.

On 20 February 2013, GRIGIŠKĖS AB and SEB Bank AB signed a loan supply contract for LTL 35m. The loan to be obtained as a result of the financing contract will be used to purchase a new paper manufacturing machine. This investment project will take two years and will involve more than LTL 53m. It is planned to have the new production line operating by the end of 2014. GRIGIŠKĖS AB intends to purchase a new, up-to-date, European paper manufacturing machine. This paper manufacturing machine will be the most modern and will permit the company to adapt more quickly to the ever-fluctuating needs of the market, to satisfy clients' requirements more satisfactorily, to produce a product of even higher quality and to expand the product range. There is no doubt that these investments will help the company strengthen its position in the European market and will make it possible for it to compete successfully with other manufacturers of paper products. It is foreseen that the production capabilities of the newest paper manufacturing machine will be double those that currently exist; and the new paper manufacturing machine will replace the two machines with the lowest output of the three paper manufacturing machines that are currently operating.