**AB Grigiškės**

# Annual accounts for the year ended 31 December 2007

# Contents

# Company details

## AB Grigiškės

| | |
|---|---|
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| Address: | Vilniaus st. 10, LT-27101, Grigiškės-Vilnius |

## Management

Gintautas Pangonis (General Director)
Nina Šilerienė (Finance Director)

## Board

Gintautas Pangonis (Chairman)
Nina Šilerienė
Audris Vilčinskas
Normantas Paliokas
Vigmantas Kažukauskas

## Auditor

KPMG Baltics, UAB

## Banks

AB SEB Bankas
AB Bankas Hansabankas
AB Bankas Snoras

# Board's statement on the accounts

The Board has today discussed and authorized for issue the financial statements and the annual report and has signed the financial statements and report on behalf of the Company.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate and that the financial statements thus give a true and fair view.

We recommend the financial statements to be approved at the Annual General Meeting.

Vilnius, 14 April 2008

The Board:

| | |
|---|---|
| ----------------------- | -------------------------- |
| Gintautas Pangonis<br>(Chairman) | Nina Šilerienė |
| ----------------------- | -------------------------- |
| Audris Vilčinskas | Normantas Paliokas |
| -------------------------------- | |
| Vigmantas Kažukauskas | |

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# Independent auditor's report to the shareholders of AB Grigiškės

## Report on the Financial Statements

We have audited the accompanying financial statements of AB Grigiškės (the "Company"), which comprise the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7–53.

We have audited the accompanying consolidated financial statements of AB Grigiškės and its subsidiary (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7–53.

The corresponding figures presented are based on financial statements of the Company and consolidated financial statements of the Group as at and for the year ended 31 December 2006, which were audited by another auditor whose report, dated 24 March 2007, expressed a qualified opinion due to their uncertainty as to the accounting policies applied for the measurement of property, plant and equipment.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

## Basis for Qualified Opinion

As was the case for the year ended 31 December 2006, the Group's and the Company's property, plant and equipment as at 31 December 2007, include assets with a carrying amount of 21,348 tLitas (21,707 tLitas as at 31 December 2006) which are accounted for using the historical cost adjusted for indexation, using indexation rates set by the Lithuanian Government less subsequent depreciation and impairment loss. In accordance with International Financial Reporting Standards as adopted by the European Union (EU), property, plant and equipment must be measured either at fair value or at historical cost less subsequent depreciation and impairment losses. We have not been able to satisfy ourselves whether the assets referred to above, with a carrying amount of 21,348 tLitas as at 31 December 2007 (21,707 tLitas as at 31 December 2006), are fairly stated in accordance with International Financial Reporting Standards as adopted by the European Union.

## Qualified Opinion

In our opinion, except for the possible impact on the financial statements of the matter referred to in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, except for the possible impact on the consolidated financial statements of the matter referred to in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## Emphasis of the Matter

Without qualifying our opinion we draw attention to the fact that, as discussed in Note 14 to the financial statements, as at 31 December 2007 the Company's subsidiary was not in compliance with certain loan highlights of its long-term loan agreements.

## Report on Legal and Other Regulatory Requirements

In addition, we have read the annual report for the year ended 31 December 2007 set out on pages 54–75 and have not identified any material inconsistencies between the financial information for the year 2007 included in the annual report and the financial statements for the year ended 31 December 2007.

Vilnius, 17 March 2008
KPMG Baltics, UAB

Leif Rene Hansen
Partner

Ieva Voverienė
Certified Auditor

# Balance sheet

| In LTL | Notes | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 6 | 92,600,718 | 89,191,231 | 81,226,857 | 76,666,372 |
| Intangible assets | 7 | 2,489,319 | 2,620,007 | 204,208 | 308,115 |
| Investments in subsidiary | 8 | - | - | 5,005,000 | 5,005,000 |
| **Total non-current assets** | | **95,090,037** | **91,811,238** | **86,436,065** | **81,979,487** |
| **Current assets** | | | | | |
| Cash and cash equivalents | 10 | 399,980 | 571,439 | 321,861 | 461,447 |
| Loans granted | | - | 9,677 | - | 9,677 |
| Trade and other receivables | 9 | 19,837,056 | 16,917,534 | 21,250,698 | 17,894,727 |
| Inventories | 11 | 16,217,413 | 11,694,518 | 12,598,837 | 9,388,146 |
| Other assets | | 496,944 | 489,565 | 417,766 | 374,741 |
| **Total current assets** | | **36,951,393** | **29,682,733** | **34,589,162** | **28,128,738** |
| **TOTAL ASSETS** | | **132,041,430** | **121,493,971** | **121,025,227** | **110,108,225** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | 12 | 39,956,657 | 39,956,657 | 39,956,657 | 39,956,657 |
| Legal reserve | 12 | 3,995,665 | 3,995,665 | 3,995,665 | 3,995,665 |
| Retained earnings | | 26,973,359 | 23,844,784 | 26,543,644 | 23,027,692 |
| **Total equity** | | **70,925,681** | **67,797,106** | **70,495,966** | **66,980,014** |
| **Non-current liabilities** | | | | | |
| Grants | 13 | 341,401 | 341,401 | 341,401 | 341,401 |
| Bank loans | 14 | 9,946,962 | 10,410,508 | 9,946,962 | 10,410,508 |
| Obligations under finance leases | 15 | 6,123,473 | 7,518,420 | 5,521,007 | 6,558,124 |
| Deferred tax liability | 23 | 873,483 | 945,202 | 530,816 | 597,735 |
| **Total non-current liabilities** | | **17,285,319** | **19,215,531** | **16,340,186** | **17,907,768** |
| **Current liabilities** | | | | | |
| Bank loans | 14 | 16,546,361 | 12,192,272 | 9,592,950 | 5,404,963 |
| Obligations under finance leases | 15 | 3,977,122 | 4,116,967 | 3,614,854 | 3,732,432 |
| Factoring | | 4,257,777 | 39,170 | 3,174,826 | - |
| Trade and other payables | 16 | 19,049,170 | 18,132,925 | 17,806,445 | 16,083,048 |
| **Total current liabilities** | | **43,830,430** | **34,481,334** | **34,189,075** | **25,220,443** |
| **Total liabilities** | | **61,115,749** | **53,696,865** | **50,529,261** | **43,128,211** |
| **TOTAL EQUITY AND LIABILITIES** | | **132,041,430** | **121,493,971** | **121,025,227** | **110,108,225** |

The notes, set out on pages 12 to 53, are an integral part of these financial statements.

# Income statement

For the year ended 31 December

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| In LTL | Notes | 2007 | 2006 | 2007 | 2006 |
| Revenue | 17 | 144,011,656 | 119,989,277 | 134,054,619 | 110,119,282 |
| Cost of sales | 17 | (117,008,916) | (95,147,613) | (108,696,308) | (86,924,830) |
| **Gross profit** | | **27,002,740** | **24,841,664** | **25,358,311** | **23,194,452** |
| Other operating income | 18 | 923,083 | 2,390,228 | 1,178,022 | 2,466,167 |
| Selling and distribution expenses | 20 | (8,980,038) | (8,921,416) | (8,574,272) | (7,949,337) |
| Administrative expenses | 21 | (9,988,878) | (9,540,667) | (9,120,380) | (8,348,320) |
| Other operating expenses | 19 | (332,053) | (188,225) | (332,002) | (188,225) |
| **Profit from operating activities** | | **8,624,854** | **8,581,584** | **8,509,679** | **9,174,737** |
| Finance income | 22 | 418 | 1,202 | 418 | 502 |
| Finance expenses | 22 | (2,101,885) | (1,417,320) | (1,594,533) | (1,043,067) |
| **Profit before income tax** | | **6,523,387** | **7,165,466** | **6,915,564** | **8,132,172** |
| Income tax expense | 23 | (1,394,812) | (1,779,358) | (1,399,612) | (1,784,424) |
| **PROFIT FOR THE PERIOD** | | 5,128,575 | 5,386,108 | 5,515,952 | 6,347,748 |
| Basic and diluted earnings per share | 24 | 0.13 | 0.13 | 0.14 | 0.16 |

The notes, set out on pages 12 to 53, are an integral part of these financial statements.

# Statement of changes in shareholders' equity

In LTL

| The Group | Notes | Share capital | Legal reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **At 31 December 2005** | | **39,956,657** | **3,693,300** | **20,761,041** | **64,410,998** |
| Transfer to legal reserve | | - | 302,365 | (302,365) | - |
| Dividends paid | | - | - | (2,000,000) | (2,000,000) |
| Net profit | | - | - | 5,386,108 | 5,386,108 |
| **At 31 December 2006** | | **39,956,657** | **3,995,665** | **23,844,784** | **67,797,106** |
| Transfer to legal reserve | | - | - | - | - |
| Dividends paid | | - | - | (2,000,000) | (2,000,000) |
| Net profit | | - | - | 5,128,575 | 5,128,575 |
| **At 31 December 2007** | 12 | **39,956,657** | **3,995,665** | **26,973,359** | **70,925,681** |

In LTL

| The Company | Notes | Share capital | Legal reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **At 31 December 2005** | | **39,956,657** | **3,693,300** | **18,982,309** | **62,632,266** |
| Transfer to legal reserve | | - | 302,365 | (302,365) | - |
| Dividends paid | | - | - | (2,000,000) | (2,000,000) |
| Net profit | | - | - | 6,347,748 | 6,347,748 |
| **At 31 December 2006** | | **39,956,657** | **3,995,665** | **23,027,692** | **66,980,014** |
| Dividends paid | | - | - | (2,000,000) | (2,000,000) |
| Net profit | | - | - | 5,515,952 | 5,515,952 |
| **At 31 December 2007** | 12 | **39,956,657** | **3,995,665** | **26,543,644** | **70,495,966** |

The notes, set out on pages 12 to 53, are an integral part of these financial statements.

# Statement of cash flows

For the year ended 31 December

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Profit before income tax | 6,528,387 | 7,165,466 | 6,915,564 | 8,132,172 |
| Adjustments for: | | | | |
| Depreciation and amortisation | 11,203,701 | 10,176,927 | 9,670,360 | 8,864,749 |
| Interest income | (418) | (480) | (418) | (480) |
| Finance costs | 2,039,648 | 1,300,138 | 1,537,073 | 941,096 |
| Net foreign exchange loss | 49,738 | 102,732 | 49,184 | 98,843 |
| Profit on disposal of property, plant and equipment | (38,217) | (88,159) | (37,538) | (88,159) |
| Profit on disposal of emission rights | (1,709) | (1,307,748) | (1,709) | (1,307,748) |
| Provisions (reversal) for slow moving inventory, write-off to net realisable value and low value inventory | 130,165 | 184,515 | 130,165 | (100,783) |
| Property, plant and equipment impairment losses (reversal) | (212,111) | (267,807) | (212,111) | (267,807) |
| Provision for doubtful accounts receivable (reversal), write-off of bad accounts receivable and loans granted | (126,124) | (41,215) | (131,124) | (41,215) |
| | 19,573,060 | 17,224,369 | 17,919,446 | 16,230,668 |
| Changes in operating assets and liabilities: | | | | |
| (Increase) decrease in other assets | (7,379) | (158,394) | (43,025) | (71,388) |
| Decrease (increase) in trade and other receivables | (2,227,251) | 64,534 | (2,658,700) | (1,170,061) |
| (Increase) in inventories | (4,653,060) | (702,845) | (3,340,856) | (539,535) |
| Increase (decrease) in trade and other payables | 5,304,725 | 156,691 | 5,080,598 | 256,930 |
| | (1,583,165) | (640,014) | (961,983) | (1,524,054) |
| Interest paid | (2,031,448) | (1,300,319) | (1,536,020) | (941,277) |
| Income tax paid | (1,699,143) | (1,856,361) | (1,699,143) | (1,856,361) |
| | (3,730,591) | (3,156,680) | (3,235,163) | (2,797,638) |
| **Net cash from operating activities** | **14,259,304** | **13,427,675** | **13,722,300** | **11,908,976** |

The notes, set out on pages 12 to 53, are an integral part of these financial statements.

# Statement of cash flows (cont'd)

For the year ended 31 December

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| **INVESTING ACTIVITIES** | | | | |
| Purchase of property, plant and equipment and intangible assets | (11,420,656) | (19,477,927) | (11,061,112) | (17,686,656) |
| Proceeds on disposal of property, plant and equipment | 333,746 | 813,191 | 329,085 | 733,777 |
| Proceeds on disposal of emission rights | 1,709 | 1,307,748 | 1,709 | 1,307,748 |
| Interest received | 418 | 480 | 418 | 480 |
| Repayment of loans granted | 9,677 | 9,468 | 9,677 | 9,468 |
| **Net cash (used in) investing activities** | **(11,075,106)** | **(17,347,040)** | **(10,720,223)** | **(15,635,183)** |
| **FINANCING ACTIVITIES** | | | | |
| Dividends paid | (2,000,000) | (2,000,000) | (2,000,000) | (2,000,000) |
| Repayments of borrowings | (5,174,067) | (2,273,617) | (4,225,859) | (1,450,176) |
| Proceeds from borrowings | 9,064,610 | 12,915,158 | 7,950,300 | 11,823,433 |
| Repayments of finance lease liabilities | (5,246,200) | (4,818,294) | (4,866,104) | (4,326,857) |
| **Net cash from (used in) financing activities** | **(3,355,657)** | **3,823,247** | **(3,141,663)** | **4,046,400** |
| **Net (decrease)/increase in cash** | **(171,459)** | **(96,118)** | **(139,586)** | **320,193** |
| **CASH AND CASH EQUIVALENTS IN THE BEGINNING OF THE YEAR** | **571,439** | **667,557** | **461,447** | **141,254** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **399,980** | **571,439** | **321,861** | **461,447** |

The notes, set out on pages 12 to 53, are an integral part of these financial statements.

# Notes

## 1 Reporting entity

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

As at 31 December 2007 and 2006, the Group consisted of the Company and its wholly owned (100%) subsidiary UAB Baltwood. The Company's and its subsidiaries, the addresses of their registered office and the principal activities are as follow:

| Name | Country | Address | Principal activity |
|---|---|---|---|
| AB Grigiškės | Lithuania | Vilniaus str. 10, 27101 Vilnius – Grigiškės | Fiberboard, corrugated cardboard and paper articles production |
| UAB Baltwood | Lithuania | Vilniaus str. 10, 27101 Vilnius – Grigiškės | Wood processing |
| UAB Grigiškių Transporto Centras | Lithuania | Vilniaus str. 10, 27101 Vilnius – Grigiškės | Resale of used vehicles |

The financial statements of UAB Grigiškių Transporto Centras are not consolidated in 2007 and 2006 as the company did not performed its activities during this period.

As at 31 December 2007, the Group and Company employed 819 and 724 people respectively (2006: 890 and 795 respectively).

## 2 Basis of preparation

### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The Board has authorized the annual report for issue on 14 April 2008 and signed the financial statements on behalf of the Company.

# Notes

## 2 Basis of preparation (cont'd)

### Basis of measurement

The financial statements are presented in the national currency - Litas, which is the functional currency of the Group. They are prepared on the historical cost basis, as modified by the historic indexation of certain property, plant and equipment.

### Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs, as adopted by the European Union, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by the management in the application of IFRSs, as adopted by the European Union, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

## 3 Significant accounting policies

The accounting policies of the Group and Company as set out below have been consistently applied and coincide with those used in the previous year.

### Basis of consolidation

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

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

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

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

# Notes

## 3 Significant accounting policies (cont'd)

### Business combinations

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

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

### Investments in subsidiaries

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

# Notes

## 3 Significant accounting policies (cont'd)

### Foreign currency

***Translation of amounts in foreign currencies into the national currency***

Transactions in foreign currencies are translated into Litas at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

The applicable rates used for the principal currencies as at 31 December 2007 were as follows:

| 2007 | | 2006 | |
|---|---|---|---|
| 1 USD | = 2.3572 LTL | 1 USD | = 2.6304 LTL |
| 1 EUR | = 3.4528 LTL | 1 EUR | = 3.4528 LTL |
| 1 GBP | = 4.7088 LTL | 1 GBP | = 5.1468 LTL |
| 10 PLN | = 9.5713 LTL | 10 PLN | = 8.9888 LTL |

### Financial instruments

***Non-derivative financial instruments***

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade payables and other liabilities.

Cash and cash equivalents comprise cash balances and call deposits.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial instruments are recognized on the day of the transaction. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

# Notes

## 3 Significant accounting policies (cont'd)

### Financial instruments (cont'd)

*Non-derivative financial instruments (cont'd)*

Loans and receivables are non-derivative financial assets and are not quoted in an active market. They are included into current assets except for maturities greater than 12 months. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment losses, if any. Short-term receivables are not discounted.

Loans and borrowings and other financial liabilities, including trade payables are subsequently stated at amortised cost using the effective interest rate method basis. Short-term liabilities are not discounted.

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

*Derivative financial instruments*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at acquisition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. The Group did not hold any investments in this category during the period.

### Property, plant and equipment

*Recognition and measurement*

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

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

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

# Notes

## 3 Significant accounting policies (cont'd)

### Property, plant and equipment (cont'd)

***Subsequent costs***

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

***Depreciation***

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

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

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

### Intangible assets

Intangible assets are stated at acquisition cost less subsequent accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to write-off the cost of each asset over its estimated useful life which are as follows:

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

### Emission rights

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

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

# Notes

## 3 Significant accounting policies (cont'd)

### Emission rights (cont'd)

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.

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

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

### Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

*The Group as lessee*

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

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

### Inventories

Inventories, including work in progress, are valued at acquisition/production cost. In the future periods, inventories are valued at lower of net realisable value or acquisition/production cost. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

The cost of inventories is determined based on FIFO (First-In, First-Out) principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Auxiliary materials and supplies are expensed at the time they are taken into use or booked to the cost of finished goods if used in production.

# Notes

## 3 Significant accounting policies (cont'd)

### Impairment

A financial asset is impaired if there is objective evidence that certain event or events could have an adverse impact on asset-related cash flows in the future. Significant financial assets must be tested for impairment on an individual basis. The remaining financial assets are grouped according to their credit risk and the impairment for those groups is measured on a portfolio basis. An asset the impairment of which is tested on an individual basis and its impairment loss is continually recognised cannot be included in any group of assets that are tested for impairment on a portfolio basis.

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

For the assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement.

#### *Calculation of recoverable amount*

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at the initial recognition of these financial assets). Receivables with short duration are not discounted.

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### *Reversals of impairment*

An impairment loss in respect of receivables booked at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In case of certain changes in events or circumstances, on the basis of which the recoverable value of non-financial assets was calculated, indicating that carrying value on non-financial assets can be recoverable, impairment loss is reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# Notes

## 3 Significant accounting policies (cont'd)

### Impairment (cont'd)

*Grants*

Grants are recognized when they are received or when there is reasonable assurance that they will be received and the Group and Company have satisfied the conditions for receipt.

*Grants related to assets*

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

*Grants related to income*

Grants related to income are received as a reimbursement for the expenses already incurred and as a compensation for unearned revenue or expense yet to be incurred and are recognized in the income statement when the expenses to which they relate are incurred.

### Dividends

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

### Employee benefits

The Group does not have any defined contribution and benefit plans and has no share based payment schemes. Post employment obligations to retired employees on a pension are borne by the State.

### Provisions

Provisions are recognised in the balance sheet when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from a past event.

# Notes

## 3 Significant accounting policies (cont'd)

**Revenue recognition**

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

*Sale of goods*

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

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

*Sales of services*

Sales of services are recognised on performance of the services.

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

**Expenses**

***Operating lease payments***

Payments made under operating lease are recognised in the income statement on a straight-line basis over the term of lease.

***Finance lease payments***

Minimum lease payments are apportioned between finance expenses and the reduction of the outstanding liability using the effective interest rate method. The finance expenses are distributed over the whole period of the finance lease, so as to produce a constant periodic interest rate on the remaining balance of the liability.

***Net financing costs***

Net financing costs comprise interest expenses on borrowings calculated using the effective interest rate method, interest income on funds invested and foreign exchange gains and losses.

Interest income is recognized in the income statement as accrued, using the effective interest rate method. The interest expenses component of finance lease payments is recognized in the income statement using the effective interest rate method.

# Notes

## 3 Significant accounting policies (cont'd)

### Income tax

Income tax consists of current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to the items recognised directly in equity, in which case it is recognised in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not calculated for temporary differences recorded at the moment of initial recognition of assets or liabilities when such differences affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets is recognised only to the extent it is probable that the future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

### Segment reporting

Segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

### Earnings per share

The Group presents data of basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Group by weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects off all dilutive potential ordinary shares. During the reporting period there were no dilutive potential ordinary shares issued by the Group.

# Notes

## 3 Significant accounting policies (cont'd)

### Contingencies

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

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

### Related parties

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

# Notes

## 3 Significant accounting policies (cont'd)

**Standards, interpretations and amendments to published standards that are not yet effective**

New standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- Revised IFRS 2 Share-based Payment (effective from 1 January 2009). The revised Standard will clarifies the definition of vesting conditions and non-vesting conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. The revised IFRS 2 is not relevant to the Group's operations as the Group does not have any share-based compensation plans.
- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. Revised IFRS 3 is relevant to the Group. However, the Group has not yet completed its analysis of the impact of the revised Standard.
- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has not yet completed its analysis of the impact of the revised Standard.
- The revised IAS 1 Presentation of Financial Statements (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 Borrowing Costs (effective from 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group has not yet completed its analysis of the impact of the revised Standard.
- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The revised IAS 27 is not relevant to the Group's operations.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Group's operations as the Group has not entered into any share-based payments arrangements.

# Notes

## 3 Significant accounting policies (cont'd)

**Standards, interpretations and amendments to published standards that are not yet effective (cont'd)**

- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations as the Group has not entered into any service concession arrangements.

- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Group does not expect the Interpretation to have any impact on the financial statements.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements (hereinafter MFR) and their interactions (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses:
  1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19;
  2) how a MFR might affect the availability of reductions in future contributions; and
  3) when a MFR might give rise to a liability.
  No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Group has not yet completed its analysis of the impact of the new interpretation.

# Notes

## 4 Significant accounting estimates and judgements

Estimates and assumptions are continually reviewed and are based on historical experience and other factors, representing the current situation and reasonable expected future events.

The Group and the Company makes estimates and assumptions concerning future events, therefore accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

**Impairment losses on receivables**

The Group reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions that influence the group of the receivables.

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

## 5 Financial risk management

The Group and Company has exposure to the following risks:

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

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

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

# Notes

## 5 Financial risk management (cont'd)

### *Credit risk*

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

The Group controls credit risk by using credit conditions and procedures of market analysis. The Group has no significant credit risk concentration because sales are distributed among different buyers.

The settlement period with suppliers is from 10 to 90 days, and credit terms of purchasers are from 15 to 40 days. Not permanent clients are required to pay in advance.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance for impairment includes only specific loss, related to individually significant trade and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 31 December 2007 was:

| in LTL | Carrying amount | |
|---|---|---|
| | The Group | The Company |
| Cash and cash equivalents | 399,980 | 321,861 |
| Trade and other receivables | 19,837,056 | 21,250,698 |
| Other assets | 496,944 | 417,766 |
| **Total** | **20,733,980** | **21,990,325** |

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region could be specified as follows:

| in LTL | Carrying amount | |
|---|---|---|
| | The Group | The Company |
| Domestic | 12,027,156 | 17,090,300 |
| Euro-zone countries | 852,698 | 852,443 |
| United Kingdom | 365,310 | 365,310 |
| Other European countries | 2,790,053 | 2,760,449 |
| United States | - | - |
| Other regions | 182,196 | 182,196 |
| **Total** | **16,217,413** | **21,250,698** |

The maximum exposure to credit risk for trade receivables at the reporting date by debtor could be specified as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Amount receivable (In LTL) | Share, % | Amount receivable (In LTL) | Share, % |
| Debtor 1 | 2,105,672 | 13% | 2,105,672 | 10% |
| Debtor 2 | 1,559,092 | 10% | 1,559,092 | 7% |
| Debtor 3 | 967,496 | 6% | 967,496 | 5% |
| Debtor 4 | 870,611 | 5% | 870,611 | 4% |
| Other debtors | 11,414,663 | 66% | 15,747,827 | 74% |
| **Total** | **16,217,413** | **100%** | **21,250,698** | **100%** |

# Notes

## 5 Financial risk management (cont'd)

### *Liquidity risk*

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

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains 6 000 000 Litas overdraft facility.

### *Market risk*

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

### *Interest rate risk*

The Group's borrowings are subject to variable interest rates related to EURIBOR and VILIBOR. As at 31 December 2007, the Group did not use financial instruments to hedge its exposure to the cash flow risk related to debt instruments with variable interest rates or price risk related to debt instruments with fixed interest rates.

A change in average annual interest rate for the Group's borrowings by 1 percentage point would have increased (decreased) the interest expenses and the profit for the year ended 31 December 2007 by approximately 408 thousand Litas.

### *Currency risk*

The functional currency of the Group is Litas (LTL). The Group faces foreign currency risk on purchases and borrowings that are denominated in currencies other than Litas and EUR. The risk related to transactions in EUR is considered to be insignificant as the Lithuanian Litas is pegged to EUR at a fixed rate. The Group does not have any material exposure to other foreign currencies as at 31 December 2006 and 31 December 2007.

The Company's foreign currency exchange risk has been concentrated in the below provided items of the balance sheet:

| | 31 December 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | The Group | | | | The Company | | | |
| In LTL | USD | EUR | LTL | Other | USD | EUR | LTL | Other |
| Receivables | | 3,910,715 | 14,187,782 | | | 3,875,214 | 15,960,797 | |
| Cash and cash equivalents | | 134,706 | 259,632 | 5,642 | | 120,558 | 195,661 | 5,642 |
| Borrowings | | 24,432,909 | 16,418,786 | | | 19,514,258 | 12,336,341 | |
| Payables | 39,536 | 2,212,760 | 10,558,032 | 4,253 | 39,536 | 2,205,766 | 9,728,179 | 4,253 |
| **Total risk currency exchange rates of balance sheet** | **39,536** | **30,691,091** | **41,424,232** | **9,895** | **39,536** | **25,715,796** | **38,220,978** | **9,895** |

# Notes

## 5 Financial risk management (cont'd)

### *Currency risk (cont'd)*

The currency exchange risk was not considered in respect of income and expenses because most items are related to the functional currency – LTL.

Below are the significant currency exchange rates applied during the period (in respect of functional currency):

| | 2007 average rates | |
|---|---|---|
| | The Group | The Company |
| EUR | 3.4528 | 3.4528 |
| USD | 2.5230 | 2.5230 |

### *Capital management*

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and proposes the level of dividends to ordinary shareholders based on the Group's financial results and strategic plans.

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

There were no changes in the Group's approach to capital management during the year.

### *Fair value of financial instruments*

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models as appropriate.

Carrying amount of trade amounts receivable, amounts payable and short-term credit lines is close to their fair value. The fair value of the long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans, borrowings and other payables with variable interest rates approximates their carrying amounts.

# Notes

## 6 Property, plant and equipment

As at 31 December, property, plant and equipment of the Group consisted of the following:

In LTL

| The Group | Buildings and constructions | Machinery and equipment | Vehicles | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **Modified cost** | | | | | | |
| 1 January 2006 | 32,179,925 | 76,263,344 | 5,787,785 | 2,621,999 | 10,985,454 | 127,838,507 |
| Additions | 934,555 | 1,645,442 | 581,549 | 244,659 | 20,781,840 | 24,188,045 |
| Disposals | (133,662) | (2,494,015) | (234,477) | (109,109) | - | (2,971,263) |
| Transfers | 2,717,506 | 6,866,961 | - | 33,404 | (9,617,871) | - |
| 31 December 2006 | 35,698,324 | 82,281,732 | 6,134,857 | 2,790,953 | 22,149,423 | 149,055,289 |
| Comprising: | | | | | | |
| At cost | 6,759,615 | 57,886,939 | 5,547,286 | 2,496,027 | 22,149,423 | 94,839,290 |
| At modified cost | 28,938,709 | 24,394,793 | 587,571 | 294,926 | - | 54,215,999 |
| 31 December 2006 | 35,698,324 | 82,281,732 | 6,134,857 | 2,790,953 | 22,149,423 | 149,055,289 |
| 1 January 2007 | 35,698,324 | 82,281,732 | 6,134,857 | 2,790,953 | 22,149,423 | 149,055,289 |
| Additions | 39,446 | 960,737 | 935,718 | 311,398 | 12,296,319 | 14,543,618 |
| Disposals | (40,022) | (1,135,028) | (377,727) | (199,983) | - | (1,752,760) |
| Transfers | 39,269 | 4,802,189 | - | - | (4,841,458) | - |
| 31 December 2007 | 35,737,017 | 86,909,630 | 6,692,848 | 2,902,368 | 29,604,284 | 161,846,147 |
| Comprising: | | | | | | |
| At cost | 6,839,144 | 60,942,713 | 6,114,065 | 2,615,539 | 29,604,284 | 106,115,745 |
| At modified cost | 28,897,873 | 25,966,917 | 578,783 | 286,829 | - | 55,730,402 |
| 31 December 2007 | 35,737,017 | 86,909,630 | 6,692,848 | 2,902,368 | 29,604,284 | 161,846,147 |
| **Accumulated depreciation and impairment** | | | | | | |
| 1 January 2006 | 13,300,666 | 34,921,280 | 2,509,979 | 1,613,084 | - | 52,345,009 |
| Depreciation | 755,805 | 8,014,242 | 865,270 | 377,538 | - | 10,012,855 |
| Impairment loss/ (reversal) | 34,376 | (341,518) | 39,335 | - | - | (267,807) |
| Disposals | (94,093) | (1,870,234) | (165,902) | (95,770) | - | (2,225,999) |
| 31 December 2006 | 13,996,754 | 40,723,770 | 3,248,682 | 1,894,852 | - | 59,864,058 |
| Comprising: | | | | | | |
| At cost | 890,853 | 22,177,523 | 2,681,208 | 1,605,585 | - | 27,355,169 |
| At modified cost | 13,105,901 | 18,546,247 | 567,474 | 289,267 | - | 32,508,889 |
| 31 December 2006 | 13,996,754 | 40,723,770 | 3,248,682 | 1,894,852 | - | 59,864,058 |
| 1 January 2007 | 13,996,754 | 40,723,770 | 3,248,682 | 1,894,852 | - | 59,864,058 |
| Depreciation | 905,319 | 8,821,891 | 918,032 | 399,801 | - | 11,045,043 |
| Impairment loss/ (reversal) | - | (212,111) | - | - | - | (212,111) |
| Disposals | (32,271) | (916,174) | (312,572) | (190,544) | - | (1,451,561) |
| 31 December 2007 | 14,869,802 | 48,417,376 | 3,854,142 | 2,104,109 | - | 69,245,429 |
| Comprising: | | | | | | |
| At cost | 1,163,672 | 28,580,500 | 3,297,094 | 1,821,428 | - | 34,862,694 |
| At modified cost | 13,706,130 | 19,836,876 | 557,048 | 282,681 | - | 34,382,735 |
| 31 December 2007 | 14,869,802 | 48,417,376 | 3,854,142 | 2,104,109 | - | 69,245,429 |
| **Carrying amount** | | | | | | |
| **31 December 2006** | **21,701,570** | **41,557,962** | **2,886,175** | **896,101** | **22,149,423** | **89,191,231** |
| **31 December 2007** | **20,867,215** | **38,492,254** | **2,838,706** | **798,259** | **29,604,284** | **92,600,718** |

# Notes

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

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

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

As at 31 December 2007, the part of the Group's property, plant and equipment with a carrying value of 18,901,606 Litas (31 December 2006 – 17,457,366 Litas) is pledged as a security for repayment of the loans granted by banks (Note 14).

As at 31 December 2007, the Group's property, plant and equipment with a carrying value of 12,079,223 Litas (31 December 2006 – 15,099,674 Litas) were acquired under finance lease.

As at 31 December 2007, the impairment of the Group's property, plant and equipment amounted to 440,690 Litas (31 December 2006 – 652,801 Litas).

As at 31 December 2007, the acquisition cost of the fully depreciated property, plant and equipment (constructions, equipment and other assets) still in use of the Group was 13,418,320 Litas (31 December 2006 – 16,357,396 Litas).

As at 31 December 2007, the Group's constructions in progress include unfinished projects. The main projects consisted of the following:

| Project | Carrying amount (In LTL) | Estimated expenses to completion (In LTL) | Estimated date of completion |
|---|---|---|---|
| Papermaking line | 24,615,872 | 645,000 | March, 2008 |
| Expansion of paper alteration building | 1,691,880 | 1,182,000 | September, 2008 |
| Steam boiler with a productivity of 35 t/h and installation in boiler house | 824,457 | 5,476,000 | October, 2008 |
| Other | 2,472,075 | - | |
| **Total** | **29,604,284** | **7,303,000** | |

# Notes

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

In LTL

| The Company | Buildings and constructions | Machinery and equipment | Vehicles | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **Modified cost** | | | | | | |
| 1 January 2006 | 30,255,071 | 66,870,838 | 4,693,964 | 2,515,805 | 10,979,738 | 115,315,416 |
| Additions | 934,555 | 950,263 | 458,426 | 238,958 | 18,910,829 | 21,493,031 |
| Disposals | (133,662) | (2,395,575) | (234,477) | (109,109) | - | (2,872,823) |
| Transfers | 2,717,506 | 6,866,961 | - | 33,404 | (9,617,871) | - |
| 31 December 2006 | 33,773,470 | 72,292,487 | 4,917,913 | 2,679,058 | 20,272,696 | 133,935,624 |
| Comprising: | | | | | | |
| At cost | 4,834,761 | 47,897,694 | 4,330,342 | 2,384,132 | 20,272,696 | 79,719,625 |
| At modified cost | 28,938,709 | 24,394,793 | 587,571 | 294,926 | - | 54,215,999 |
| 31 December 2006 | 33,773,470 | 72,292,487 | 4,917,913 | 2,679,058 | 20,272,696 | 133,935,624 |
| 1 January 2007 | 33,773,470 | 72,292,487 | 4,917,913 | 2,679,058 | 20,272,696 | 133,935,624 |
| Additions | 8,433 | 897,333 | 883,530 | 268,082 | 12,121,692 | 14,179,070 |
| Disposals | (40,022) | (1,135,028) | (358,617) | (194,267) | - | (1,727,934) |
| Transfers | 39,269 | 2,756,550 | - | - | (2,795,819) | - |
| 31 December 2007 | 33,781,150 | 74,811,342 | 5,442,826 | 2,752,873 | 29,598,569 | 146,386,760 |
| Comprising: | | | | | | |
| At cost | 4,883,277 | 48,844,425 | 4,864,043 | 2,466,044 | 29,598,569 | 90,656,358 |
| At modified cost | 28,897,873 | 25,966,917 | 578,783 | 286,829 | - | 55,730,402 |
| 31 December 2007 | 33,781,150 | 74,811,342 | 5,442,826 | 2,752,873 | 29,598,569 | 146,386,760 |
| **Accumulated depreciation and impairment** | | | | | | |
| 1 January 2006 | 13,193,548 | 34,022,221 | 2,228,654 | 1,566,687 | - | 51,011,110 |
| Depreciation | 704,051 | 7,035,589 | 642,050 | 351,232 | - | 8,732,922 |
| Impairment loss/ (reversal) | 34,376 | (341,518) | 39,335 | - | - | (267,807) |
| Disposals | (94,093) | (1,851,208) | (165,902) | (95,770) | - | (2,206,973) |
| 31 December 2006 | 13,837,882 | 38,865,084 | 2,744,137 | 1,822,149 | - | 57,269,252 |
| Comprising: | | | | | | |
| At cost | 731,981 | 20,318,837 | 2,176,663 | 1,532,882 | - | 24,760,363 |
| At modified cost | 13,105,901 | 18,546,247 | 567,474 | 289,267 | - | 32,508,889 |
| 31 December 2006 | 13,837,882 | 38,865,084 | 2,744,137 | 1,822,149 | - | 57,269,252 |
| 1 January 2007 | 13,837,882 | 38,865,084 | 2,744,137 | 1,822,149 | - | 57,269,252 |
| Depreciation | 853,565 | 7,622,305 | 680,157 | 383,168 | - | 9,539,195 |
| Impairment loss/ (reversal) | - | (212,111) | - | - | | (212,111) |
| Disposals | (32,271) | (916,174) | (297,444) | (190,544) | - | (1,436,433) |
| 31 December 2007 | 14,659,176 | 45,359,104 | 3,126,850 | 2,014,773 | - | 65,159,903 |
| Comprising: | | | | | | |
| At cost | 953,046 | 25,522,228 | 2,569,802 | 1,732,092 | - | 30,777,168 |
| At modified cost | 13,706,130 | 19,836,876 | 557,048 | 282,681 | - | 34,382,735 |
| 31 December 2007 | 14,659,176 | 45,359,104 | 3,126,850 | 2,014,773 | - | 65,159,903 |
| **Carrying amount** | | | | | | |
| **31 December 2006** | **19,935,588** | **33,427,403** | **2,173,776** | **856,909** | **20,272,696** | **76,666,372** |
| **31 December 2007** | **19,121,974** | **29,452,238** | **2,315,976** | **738,100** | **29,598,569** | **81,226,857** |

# Notes

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

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

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

As at 31 December 2007, the part of the Company's property, plant and equipment with a carrying value of 10,777,422 Litas (31 December 2006 – 8,438,290 Litas) is pledged as a security for repayment of the loans granted by banks (Note 14).

As at 31 December 2007, the Company's property, plant and equipment with a carrying value of 10,549,853 Litas (31 December 2006 – 13,293,443 Litas) were acquired under finance lease.

As at 31 December 2007, the impairment of the Company's property, plant and equipment amounted to 440,690 Litas (31 December 2006 – 652,801 Litas).

As at 31 December 2007, the acquisition cost of the fully depreciated property, plant and equipment (constructions, equipment and other assets) still in use of the Company was 13,220,270 Litas (31 December 2006 – 16,341,942 Litas).

As at 31 December 2007, the Company's constructions in progress include unfinished projects. The main projects consisted of the following:

| Project | Carrying amount (In LTL) | Estimated expenses to completion (In LTL) | Estimated date of completion |
|---|---|---|---|
| Papermaking line | **24,615,872** | 645,000 | March, 2008 |
| Expansion of paper alteration building | 1,691,880 | 1,182,000 | September, 2008 |
| Steam boiler with a productivity of 35 t/h and installation in boiler house | 824,457 | 5,476,000 | October, 2008 |
| Other | 2,466,360 | - | |
| **Total** | **29,598,569** | **7,303,000** | |

# Notes

## 7 Intangible assets

As at 31 December, intangible assets of the Group consisted of the following:

In LTL

| The Group | Land lease rights | Licenses, patents | Software | Other assets and prepayments | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 1 January 2006 | 2,400,000 | 62,971 | 505,817 | 32,784 | 3,001,572 |
| Additions | - | - | 239,455 | 3,836 | 243,291 |
| Disposals | - | (21,882) | (45,052) | (16,000) | (82,934) |
| Transfers | - | - | - | - | - |
| 31 December 2006 | 2,400,000 | 41,089 | 700,220 | 20,620 | 3,161,929 |
| 1 January 2007 | 2,400,000 | 41,089 | 700,220 | 20,620 | 3,161,929 |
| Additions | - | 24,570 | 2,512 | 910 | 27,992 |
| Disposals | - | (13,257) | (34,207) | - | (47,464) |
| Transfers | - | 3,836 | - | (3,836) | - |
| **31 December 2007** | **2,400,000** | **56,238** | **668,525** | **17,694** | **3,142,457** |
| **Accumulated amortisation** | | | | | |
| 1 January 2006 | 62,222 | 38,056 | 331,381 | 29,099 | 460,758 |
| Amortisation | 26,667 | 13,606 | 120,770 | 3,029 | 164,072 |
| Disposals | - | (21,860) | (45,049) | (15,999) | (82,908) |
| 31 December 2006 | 88,889 | 29,802 | 407,102 | 16,129 | 541,922 |
| 1 January 2007 | 88,889 | 29,802 | 407,102 | 16,129 | 541,922 |
| Amortisation | 26,667 | 13,291 | 118,050 | 650 | 158,658 |
| Disposals | - | (13,256) | (34,186) | - | (47,442) |
| **31 December 2007** | **115,556** | **29,837** | **490,966** | **16,779** | **653,138** |
| **Carrying amount** | | | | | |
| **31 December 2006** | **2,311,111** | **11,287** | **293,118** | **4,491** | **2,620,007** |
| **31 December 2007** | **2,284,444** | **26,401** | **177,559** | **915** | **2,489,319** |

Amortisation expenses have been included in administrative expenses.

As at 31 December 2007, the acquisition cost of the fully depreciated intangible assets still in use of the Group was 125,762 Litas (31 December 2006 – 97,726 Litas).

As at 31 December 2007, the Group's land lease rights with a carrying value of 2,284,444 Litas (31 December 2006 – 2,311,111 Litas) are pledged as a security for repayment of the loan granted by banks (Note 14).

# Notes

## 7 Intangible assets (cont'd)

In LTL

| The Company | Licenses and patents | Software | Other assets | Prepayments | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 1 January 2006 | 62,971 | 491,144 | 27,496 | - | 581,611 |
| Additions | - | 239,455 | - | 3,836 | 243,291 |
| Disposals | (21,882) | (45,052) | (16,000) | - | (82,934) |
| Transfers | - | - | - | - | - |
| 31 December 2006 | 41,089 | 685,547 | 11,496 | 3,836 | 741,968 |
| 1 January 2007 | 41,089 | 685,547 | 11,496 | 3,836 | 741,968 |
| Additions | 24,570 | 1,800 | 910 | - | 27,280 |
| Disposals | (13,257) | (34,207) | - | - | (47,464) |
| Transfers | 3,836 | - | - | (3,836) | - |
| **31 December 2007** | **56,238** | **653,140** | **12,406** | **-** | **721,784** |
| **Accumulated amortisation** | | | | | |
| 1 January 2006 | 38,056 | 321,597 | 25,281 | - | 384,934 |
| Amortisation | 13,606 | 116,660 | 1,561 | - | 131,827 |
| Disposals | (21,860) | (45,049) | (15,999) | - | (82,908) |
| 31 December 2006 | 29,802 | 393,208 | 10,843 | - | 433,853 |
| 1 January 2007 | 29,802 | 393,208 | 10,843 | - | 433,853 |
| Amortisation | 13,291 | 117,224 | 650 | - | 131,165 |
| Disposals | (13,256) | (34,186) | - | - | (47,442) |
| **31 December 2007** | **29,837** | **476,246** | **11,493** | **-** | **517,576** |
| **Carrying amount** | | | | | |
| **31 December 2006** | **11,287** | **292,339** | **653** | **3,836** | **308,115** |
| **31 December 2007** | **26,401** | **176,894** | **913** | **-** | **204,208** |

Amortisation expenses have been included in administrative expenses.

As at 31 December 2007, the acquisition cost of fully depreciated intangible assets still in use by the Company amounted to 106,222 Litas (31 December 2006 – 84,348 Litas).

# Notes

## 8 Investments in subsidiaries

As at 31 December, investments in subsidiaries consisted of the following:

| Subsidiary | 2007 In LTL | 2007 % of ownership | 2006 In LTL | 2006 % of ownership |
|---|---|---|---|---|
| UAB Baltwood | 5,005,000 | 100 | 5,005,000 | 100 |
| UAB Grigiškių Transporto Centras | - | 100 | - | 100 |
| **Total** | **5,005,000** | | **5,005,000** | |

There was no movement in investment balance during the years ended 31 December 2006 and 2007. UAB Grigiškių Transporto Centras assets as well as equity and liability amount to 0 Litas. This company will be liquidated.

### Loans granted

Loans granted as at 31 December:

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| UAB Grigiškių Transporto Centras (in LTL), maturity date: 31 December 2005, interest free | - | 74,853 | - | 74,853 |
| Loan to employee (in LTL), maturity date: 31 December 2007, interest free | - | 9,677 | - | 9,677 |
| | - | **84,530** | - | **84,530** |
| Less: amounts receivable after one year | - | - | - | - |
| Less: provisions for doubtful amounts receivable | - | (74,853) | - | (74,853) |
| **Total amounts receivable during one year** | - | **9,677** | - | **9,677** |

As at 31 December 2007, all the loans granted were regained.

# Notes

## 9 Trade and other receivables

As at 31 December, trade and other receivables consisted of the following:

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| Trade receivables | 19,044,210 | 16,746,847 | 20,749,726 | 17,965,183 |
| Other receivables | 1,748,237 | 1,167,671 | 1,424,365 | 899,530 |
| | **20,792,447** | **17,914,518** | **22,174,091** | **18,864,713** |
| Less: allowance for doubtful amounts receivable | (955,391) | (996,984) | (923,393) | (969,986) |
| **Total amounts receivable within one year** | **19,837,056** | **16,917,534** | **21,250,698** | **17,894,727** |

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

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

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| **At 1 January** | **996,984** | **1,083,193** | **969,986** | **1,056,195** |
| Increase of allowance | 14,678 | 33,622 | 9,678 | 33,622 |
| Reversal related to write-offs | (11,858) | (80,631) | (11,858) | (80,631) |
| Reversal related to regained debts | (44,413) | (39,200) | (44,413) | (39,200) |
| **At 31 December** | **955,391** | **996,984** | **923,393** | **969,986** |

# Notes

## 10 Cash and cash equivalents

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

| | The Group | | The Company | |
|---|---|---|---|---|
| In LTL | 2007 | 2006 | 2007 | 2006 |
| Cash at bank | 328,221 | 544,174 | 286,582 | 456,971 |
| Cash on hand | 71,759 | 27,265 | 35,279 | 4,476 |
| **Total** | **399,980** | **571,439** | **321,861** | **461,447** |

As at 31 December 2007, cash at AB SEB Bankas account and future cash inflows of 3,000 tLitas into this account were pledged to secure the credit facilities granted by the bank. As at 31 December 2006, the Group's and the Company's cash balances in the pledged account amounted to 201,462 Litas (Note 14).

## 11 Inventories

As at 31 December, inventories consisted of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| In LTL | 2007 | 2006 | 2007 | 2006 |
| Materials | 5,463,309 | 4,414,596 | 4,873,416 | 4,204,918 |
| Work in progress | 5,049,245 | 3,809,001 | 2,355,556 | 2,042,924 |
| Finished goods | 5,790,581 | 3,374,661 | 5,455,587 | 3,044,044 |
| Goods in transit | 74,818 | 126,635 | 74,818 | 126,635 |
| | **16,377,953** | **11,724,893** | **12,759,377** | **9,418,521** |
| Less: write-down to net realizable value | (160,540) | (30,375) | (160,540) | (30,375) |
| **Total** | **16,217,413** | **11,694,518** | **12,598,837** | **9,388,146** |

As at 31 December 2007, the cost of inventories has been reduced to the net realisable value by 160,540 Litas (as at 31 December 2006: 30,375 Litas). The write-down of inventories to the net realizable value is recognised in administrative expenses.

As at 31 December 2007, the Group's and the Company's inventory with carrying amounts of 8,833,634 Litas and 8,000,000 Litas respectively are pledged as a security for the loan granted by the bank (as at 31 December 2006 –5,833,634 Litas and 5,000,000 Litas) (Note 14).

# Notes

## 12 Share capital and reserves

As at 31 December 2007 and 2006, the share capital issued consisted of 39,956,657 ordinary shares with the net value of 1 Litas each. As at 31 December 2007 and 2006, all shares were fully paid. Each share carries a right to vote at shareholders' meetings, to receive dividends when declared and a right to residual assets.

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of shares | Proportion of ownership, % | Number of shares | Proportion of ownership, % |
| Lithuanian legal entities | 21,812,994 | 54.59 | 21,707,954 | 54.33 |
| Lithuanian individuals | 13,998,538 | 35.04 | 12,326,087 | 30.85 |
| Foreign legal entities | 4,084,689 | 10.22 | 5,868,967 | 14.69 |
| Foreign individuals | 60,436 | 0.15 | 53,649 | 0.13 |
| **Total** | **39,956,657** | **100.00** | **39,956,657** | **100.00** |

Main shareholders:

| | Number of shares | Proportion of ownership, % | Number of shares | Proportion of ownership, % |
|---|---|---|---|---|
| UAB Ginvildos Investicija | 19,128,653 | 47.87 | 18,895,104 | 47.29 |
| Rosemount Holdings LLC | 3,613,035 | 9.04 | 3,554,319 | 8.90 |
| Mišeikis Dailius Juozapas | 2,884,402 | 7.22 | 2,146,745 | 5.37 |
| **Total** | **25,626,090** | **64.13** | **24,596,168** | **61.56** |

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

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

## 13 Grants

The movement of grants for the Group and Company for the year ended 31 December 2007 and 2006 consisted of the following:

| In LTL | Grant related to assets | Grant related to expenses | Total |
|---|---|---|---|
| **At 1 January 2006** | - | - | - |
| Received during the year | 341,401 | 82,656 | 424,057 |
| Used during the year | - | (82,656) | (82,656) |
| **At 31 December 2006** | **341,401** | - | **341,401** |
| | | | |
| **At 1 January 2007** | - | - | - |
| Received during the year | - | 702,079 | 702,079 |
| Used during the year | - | (702,079) | (702,079) |
| **At 31 December 2007** | **341,401** | - | **341,401** |

# Notes

## 14 Borrowings

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| The borrowings are repayable as follows: | | | | |
| Within one year | 16,546,361 | 12,192,272 | 9,592,950 | 5,404,963 |
| In the second year | 4,414,495 | 3,285,804 | 4,414,495 | 3,285,804 |
| In the third to fifth years inclusive | 5,532,467 | 7,124,704 | 5,532,467 | 7,124,704 |
| | **26,493,323** | **22,602,780** | **19,539,912** | **15,815,471** |
| Less: amount due for settlement within one year* | (16,546,361) | 12,192,272 | (9,592,950) | 5,404,963 |
| **Amount due for settlement after one year** | **9,946,962** | **10,410,508** | **9,946,962** | **10,410,508** |
| Analysis of borrowings by currency: | | | | |
| LTL | 12,161,010 | 9,976,455 | 9,161,514 | 7,476,959 |
| EUR | 14,332,313 | 12,626,325 | 10,378,398 | 8,338,512 |
| **Total** | **26,493,323** | **22,602,780** | **19,539,912** | **15,815,471** |

**The Group**

** - according to the requirements of the loan agreement with AB SEB Bankas, UAB Baltwood (the subsidiary) is required to comply with certain covenants. The subsidiary is in default with certain covenants noted in the loan agreement with AB SEB Bankas for the years ended 31 December 2006 and 2007. Therefore, the loan from AB SEB Bankas amounting 3,953,916 Litas is accounted for as a current loan on demand. In case AB SEB Bankas will not claim the loan to be repaid fully before the maturity date set in the agreement, the future loan repayments after the year 2007 would be as follows:*

| | In LTL |
|---|---|
| 2008 | 948,208 |
| 2009 | 948,208 |
| 2010 | 948,208 |
| 2011 | 1,109,292 |
| **Total** | **3,953,916** |

Covenants calculated by reference to the audited financial statements of UAB Baltwood for the year ended 31 December 2007, are as follows:

| | Required | Actual |
|---|---|---|
| EBITDA to financial liabilities | <2.6 | 5.49 |
| Current liquidity | >1 | 0.46 |
| Debt to equity | <2.33 | 2.67 |
| Credit coverage | >1.4 | 0.06 |

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

# Notes

## 14 Borrowings (cont'd)

### Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

| | | | | 31 December 2007 | | | |
|---|---|---|---|---|---|---|---|
| | | | | The Group | | The Company | |
| In LTL | Currency | Nominal interest rate | Year of maturity | Face value | Carrying amount | Face value | Carrying amount |
| Secured bank loan | EUR | LIBOR + 1,35% | 2011 | 4,003,629 | 3,953,915 | - | - |
| Secured bank loan | LTL | VILIBOR + 1,35% | 2008 | 3,000,000 | 2,999,496 | - | - |
| Factoring | LTL | VILIBOR + 1,3% | 2008 | 1,100,000 | 1,082,949 | - | - |
| Secured bank loan | EUR | LIBOR + 0,9% | 2014 | 12,773,634 | 10,378,398 | 12,773,634 | 10,378,398 |
| Financial lease liabilities | EUR | LIBOR + ( 0,9-1,6)% | 2008-2012 | 10,338,370 | 9,255,423 | 8,290,687 | 8,290,687 |
| Secured bank loan | LTL | VILIBOR + 0,9% | 2008 | 6,000,000 | 5,178,455 | 6,000,000 | 5,178,455 |
| Secured bank loan | LTL | VILIBOR + 0,9% | 2011 | 3,983,060 | 3,983,060 | 3,983,060 | 3,983,060 |
| Factoring | LTL | VILIBOR + 1,12% | 2008 | 2,600,000 | 1,945,359 | 2,600,000 | 1,945,359 |
| Factoring | LTL | VILIBOR + 0,9% | 2008 | 1,500,000 | 1,229,467 | 1,500,000 | 1,229,467 |
| Financial lease liabilities | EUR | EURIBOR + 0,9% | 2009-2012 | 845,173 | 845,173 | 845,173 | 845,173 |
| | | | | **46,143,865** | **40,851,695** | **35,992,554** | **31,850,599** |

## 15 Finance lease liabilities

| In LTL | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| **The Group** | 2007 | 2006 | 2007 | 2006 |
| Amounts payable under finance leases: | | | | |
| Within one year | 3,772,171 | 3,888,027 | 3,370,443 | 3,488,955 |
| In the second to fifth years inclusive | 5,555,126 | 6,799,576 | 5,189,383 | 6,371,542 |
| **Total** | **9,327,297** | **10,687,603** | **8,559,826** | **9,860,497** |
| Less: future finance charges | (767,471) | (827,106) | - | - |
| **Present value of lease liabilities** | **8,559,826** | **9,860,497** | **8,559,826** | **9,860,497** |
| Value added tax | 1,540,769 | 1,774,890 | 1,540,769 | 1,774,890 |
| **Total** | **10,100,595** | **11,635,387** | **10,100,595** | **11,635,387** |
| Less: amounts payable within one year | 3,977,122 | 4,116,967 | 3,977,122 | 4,116,967 |
| **Amounts payable after one year** | **6,123,473** | **7,518,420** | **6,123,473** | **7,518,420** |

# Notes

## 15 Finance lease liabilities (cont'd)

| In LTL | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| **The Company** | 2007 | 2006 | 2007 | 2006 |
| Amounts payable under finance leases: | | | | |
| Within one year | 3,426,008 | 3,509,043 | 3,063,436 | 3,163,078 |
| In the second to fifth years inclusive | 5,012,041 | 5,919,999 | 4,678,819 | 5,557,732 |
| **Total** | **8,438,049** | **9,429,042** | **7,742,255** | **8,720,810** |
| Less: future finance charges | (695,794) | (708,232) | - | - |
| **Present value of lease liabilities** | **7,742,255** | **8,720,810** | **7,742,255** | **8,720,810** |
| Value added tax | 1,393,606 | 1,569,746 | 1,393,606 | 1,569,746 |
| **Total** | **9,135,861** | **10,290,556** | **9,135,861** | **10,290,556** |
| Less: amounts payable within one year | 3,614,854 | 3,732,432 | 3,614,854 | 3,732,432 |
| **Amounts payable after one year** | **5,521,007** | **6,558,124** | **5,521,007** | **6,558,124** |

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

The Group's and the Company's obligations under finance leases are secured by the lessor's charge over the leased assets (Note 6).

## 16 Trade and other payables

As at 31 December, trade and other payables consisted of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| In LTL | 2007 | 2006 | 2007 | 2006 |
| Trade payables | 12,814,582 | 13,899,646 | 11,977,734 | 12,030,834 |
| Taxes, salaries and social insurance payable | 4,028,350 | 3,321,351 | 3,870,000 | 3,190,238 |
| Advances received | 292,373 | 178,275 | 277,390 | 158,931 |
| Other payables | 1,913,865 | 733,653 | 1,681,321 | 703,045 |
| **Total** | **19,049,170** | **18,132,925** | **17,806,445** | **16,083,048** |

# Notes

## 17 Business and geographical segments

### The Group

Business segments

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

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

In LTL

| 2007 | Paper | Hardboard | Wood processing | Unallocated | Total |
|---|---|---|---|---|---|
| Sales | 57,918,344 | 64,944,167 | 15,874,404 | 5,274,741 | 144,011,656 |
| Cost of sales | (45,119,438) | (53,764,153) | (14,419,643) | (3,705,682) | (117,008,916) |
| **Gross profit** | **12,798,906** | **11,180,014** | **1,454,761** | **1,569,059** | **27,002,740** |
| Depreciation and amortisation | 4,160,558 | 3,668,433 | 1,533,341 | 1,841,369 | 11,203,701 |
| Segment property, plant and equipment | 43,886,284 | 19,697,201 | 13,658,973 | 17,847,579 | 95,090,037 |
| Segment capital expenditure | 8,810,412 | 706,272 | 365,262 | 4,689,664 | 14,571,610 |

In LTL

| 2006 | Paper | Hardboard | Wood processing | Unallocated | Total |
|---|---|---|---|---|---|
| Sales | 51,398,308 | 51,238,083 | 12,664,437 | 4,688,449 | 119,989,277 |
| Cost of sales | (37,905,723) | (42,866,453) | (11,043,797) | (3,331,640) | (95,147,613) |
| **Gross profit** | **13,492,585** | **8,371,630** | **1,620,640** | **1,356,809** | **24,841,664** |
| Depreciation and amortisation | 3,784,616 | 2,926,510 | 1,312,179 | 2,153,622 | 10,176,927 |
| Segment property, plant and equipment | 34,231,561 | 14,834,620 | 14,835,752 | 27,909,305 | 91,811,238 |
| Segment capital expenditure | 13,212,156 | 2,457,629 | 2,695,012 | 6,066,539 | 24,431,336 |

# Notes

## 17 Business and geographical segments (cont'd)

### The Company

Business segments

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

| In LTL | Paper 2007 | Paper 2006 | Hardboard 2007 | Hardboard 2006 | Unallocated 2007 | Unallocated 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|---|---|
| Sales | 57,918,344 | 51,398,308 | 64,944,167 | 51,238,083 | 11,192,108 | 7,482,891 | 134,054,619 | 110,119,282 |
| Cost of sales | (45,119,438) | (37,905,723) | (53,764,153) | (42,866,453) | (9,812,717) | (6,152,654) | (108,696,308) | (86,924,830) |
| **Gross profit** | **12,798,906** | **13,492,585** | **11,180,014** | **8,371,630** | **1,379,391** | **1,330,237** | **25,358,311** | **23,194,452** |
| Depreciation and amortisation | 4,160,558 | 3,784,616 | 3,668,433 | 2,926,510 | 1,841,369 | 2,153,623 | 9,670,360 | 8,864,749 |
| Segment tangible and intangible assets | 43,886,284 | 34,230,563 | 19,697,201 | 14,834,620 | 17,847,580 | 27,909,304 | 81,431,065 | 76,974,487 |
| Segment capital expenditure | 8,810,412 | 13,212,155 | 706,272 | 2,457,628 | 4,689,666 | 6,066,539 | 14,206,350 | 21,736,322 |

### The Group

Geographical segments

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

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

| Sales by geographical segments | 2007 LTL | 2006 LTL |
|---|---|---|
| Domestic market | 98,685,868 | 71,651,384 |
| Export | | |
| Sweden | 9,408,862 | 5,973,768 |
| Latvia | 7,104,697 | 7,749,348 |
| Poland | 6,117,349 | 11,518,682 |
| Estonia | 5,281,510 | 4,404,166 |
| Netherlands | 3,088,220 | 2,842,141 |
| Czech Republic | 3,003,430 | 1,442,036 |
| Denmark | 2,316,994 | 4,969,906 |
| USA | 2,065,041 | 2,832,688 |
| Norway | 1,295,369 | |
| Belarus | 982,595 | 646,858 |
| Great Britain | 943,842 | 1,364,700 |
| France | 749,367 | 0 |
| Germany | 302,326 | 284,376 |
| Italy | 19,888 | 491,812 |
| Hungary | | 570,804 |
| Other countries | 2,646,298 | 3,246,608 |
| | 45,325,788 | 48,337,893 |
| TOTAL | **144,011,656** | **119,989,277** |

# Notes

## 17 Business and geographical segments (cont'd)

### The Company

Geographical segments

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

| Sales by geographical segments | 2007 LTL | 2006 LTL |
|---|---|---|
| Domestic market | 90,548,205 | 67,370,330 |
| Export | | |
| Sweden | 9,369,237 | 5,820,004 |
| Latvia | 6,875,742 | 7,001,807 |
| Poland | 6,338,993 | 11,373,256 |
| Estonia | 5,280,956 | 4,401,166 |
| Holland | 3,090,220 | 2,842,141 |
| Czech Republic | 2,968,184 | 1,442,036 |
| USA | 2,065,041 | 2,832,688 |
| Finland | 1,857,662 | 226,661 |
| Norway | 1,295,370 | 1,443,400 |
| Denmark | 1,053,714, | 1,053,408 |
| Belarus | 982,594 | 646,858 |
| Great Britain | 932,394 | 1,364,700 |
| France | 503,855 | - |
| Germany | 301,918 | 272,568 |
| Hungary | 186,486 | 570,804 |
| Other countries | 404,048 | 1,457,455 |
| | 43,506,414 | 42,748,952 |
| **TOTAL** | **134,054,619** | **110,119,282** |

# Notes

## 18 Other operating income

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

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| Rental income | 642,782 | 477,779 | 861,070 | 498,608 |
| Income from sale of scrap | 134,568 | 133,018 | 143,025 | 133,018 |
| Gain from disposal of property, plant and equipment | 38,217 | 342,800 | 37,538 | 342,800 |
| Insurance compensation | 27,353 | 37,319 | 26,632 | 37,319 |
| Write-off of accounts payables | 6,782 | 6,030 | 6,782 | 6,030 |
| Gain from emission rights sold | 1,709 | 1,307,748 | 1,709 | 1,307,748 |
| Other income | 71,672 | 85,534 | 101,266 | 140,644 |
| **Total** | **923,083** | **2,390,228** | **1,178,022** | **2,466,167** |

## 19 Other operating expenses

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

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| Rental expenses | 291,271 | 26,798 | 291,271 | 26,798 |
| Other expenses | 40,782 | 161,427 | 40,731 | 161,427 |
| **Total** | **332,053** | **188,225** | **332,002** | **188,225** |

## 20 Selling and distribution expenses

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

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| Transportation expenses | 4,235,818 | 5,234,911 | 3,972,878 | 4,475,151 |
| Salaries and related taxes | 1,762,919 | 1,618,285 | 1,666,684 | 1,481,005 |
| Advertisement expenses | 1,177,409 | 356,718 | 1,173,843 | 356,718 |
| Own transport expenses | 474,466 | 246,775 | 471,785 | 241,696 |
| Repairs and maintenance | 406,260 | 445,224 | 382,275 | 426,661 |
| Intermediate, market research and marketing expenses | 396,909 | 388,347 | 396,909 | 360,791 |
| Representation expenses | 91,684 | 98,516 | 91,684 | 98,516 |
| Depreciation | 79,178 | 74,636 | 72,470 | 66,756 |
| Business trip expenses | 77,718 | 68,383 | 77,718 | 68,383 |
| New products development expenses | 61,765 | 77,131 | 61,765 | 77,131 |
| Communication expenses | 53,174 | 54,829 | 53,174 | 54,829 |
| Harbor services expenses | 17,799 | 36,531 | 17,799 | 36,531 |
| Other selling expenses | 144,939 | 221,130 | 135,288 | 205,169 |
| **Total** | **8,980,038** | **8,921,416** | **8,574,272** | **7,949,337** |

# Notes

## 21 Administrative expenses

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

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| Salaries and related expenses | 4,222,947 | 3,482,485 | 3,712,150 | 3,040,647 |
| Taxes | 847,716 | 766,033 | 785,080 | 641,375 |
| Expenses under social program | 693,941 | 345,338 | 693,191 | 345,338 |
| Employees training expenses | 648,519 | 138,012 | 648,519 | 138,012 |
| Recoverable training expenses | (702,079) | (82,656) | (702,079) | (82,656) |
| Repairs and maintenance | 611,961 | 500,665 | 611,342 | 471,023 |
| Transport expenses | 536,486 | 402,809 | 450,555 | 402,809 |
| Consulting expenses | 515,916 | 886,990 | 491,550 | 886,990 |
| Security expenses | 470,500 | 411,540 | 470,500 | 411,540 |
| Advertisement and representation expenses | 314,809 | 82,963 | 300,629 | 82,963 |
| Redundancy pay and related taxes | 313,220 | 258,179 | 313,220 | 258,179 |
| Depreciation and amortisation | 282,492 | 288,762 | 244,196 | 236,943 |
| Insurance expenses | 273,447 | 280,299 | 232,261 | 248,034 |
| Vacation reserve | 230,527 | 509,322 | 230,527 | 509,322 |
| Bank fees expenses | 208,316 | 168,297 | 176,234 | 134,059 |
| Allowance (reversal) for slow moving inventory | 130,165 | (100,783) | 130,165 | (100,783) |
| Professional services | 116,670 | 128,073 | 116,670 | 81,551 |
| Business trip expenses | 108,204 | 102,457 | 106,892 | 94,909 |
| Communication expenses | 94,367 | 98,746 | 76,000 | 75,769 |
| Write-off of bad debts | 57,916 | 80,631 | 81,591 | 80,631 |
| Restitution in case of disablement | 34,256 | 32,507 | 34,256 | 32,507 |
| Membership and admission fee expenses | 13,582 | 14,187 | 13,582 | 14,187 |
| Write-off of property, plant and equipment | 105 | 43,044 | 105 | 43,044 |
| Write-off of inventory | - | 285,695 | - | - |
| Property, plant and equipment impairment losses (reversal) | (212,111) | (267,807) | (212,111) | (267,807) |
| Reversal of impairment allowance for doubtful accounts receivables and loans granted | (116,446) | (121,846) | (121,446) | (121,846) |
| Other administrative expenses | 293,452 | 806,725 | 236,801 | 691,580 |
| **Total** | **9,988,878** | **9,540,667** | **9,120,380** | **8,348,320** |

# Notes

## 22 Financial income and expenses

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| **Finance income and expenses** | | | | |
| Interest income | 418 | 480 | 418 | 480 |
| Other finance income | - | 722 | - | 22 |
| **Total finance income** | **418** | **1,202** | **418** | **502** |
| Interest on loans and leases | (2,039,648) | (1,300,138) | (1,537,073) | (941,096) |
| Net foreign exchange losses | (49,738) | (102,732) | (49,184) | (98,843) |
| Other finance expenses | (12,499) | (14,450) | (8,276) | (3,128) |
| **Total finance expenses** | **(2,101,885)** | **(1,417,320)** | **(1,594,533)** | **(1,043,067)** |
| **Finance income and expenses, net** | **(2,101,467)** | **(1,416,118)** | **(1,594,115)** | **(1,042,565)** |

## 23 Income tax

A reconciliation of the effective rate of tax for the Group and the Company is as follows:

| | The Group 2007 LTL | % | The Group 2006 LTL | % | The Company 2007 LTL | % | The Company 2006 LTL | % |
|---|---|---|---|---|---|---|---|---|
| Profit before income tax | 6,523,387 | | 7,165,466 | | 6,915,564 | | 8,132,172 | |
| Tax at the statutory income taxes rate of 18% (2006 - 19%) | 1,174,210 | 18 | 1,361,439 | 19 | 1,244,802 | 18 | 1,545,113 | 19 |
| Tax effect of items that are not taxable in determining taxable profit | (1,012) | - | (38,402) | - | (9,990) | - | (38,402) | - |
| Tax effect of items that are not deductible in determining taxable profit | 202,346 | 3 | 263,748 | 4 | 189,579 | 2 | 177,375 | 2 |
| Adjustment in respect of prior year | (19,100) | - | 95,864 | 1 | (19,100) | - | 95,864 | 1 |
| Increase (decrease) in deferred tax asset valuation allowance | 38,368 | - | 96,709 | 1 | (5,679) | - | 4,474 | - |
| **Income tax expense** | **1,394,812** | **21** | **1,779,358** | **25** | **1,399,612** | **20** | **1,784,424** | **22** |
| The components of income tax expenses are as follows: | | | | | | | | |
| Current income tax expense | 1,485,631 | | 1,760,497 | | 1,485,631 | | 1,760,497 | |
| Adjustment in respect of prior year | (19,100) | | 95,864 | | (19,100) | | 95,864 | |
| Deferred income tax benefit | (71,719) | | (77,003) | | (66,919) | | (71,937) | |
| **Income tax expense** | **1,394,812** | | **1,779,358** | | **1,399,612** | | **1,784,424** | |

# Notes

## 23 Income tax (cont'd)

**Income tax**

| In LTL | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| Overpaid income tax (liability) as at 1 January | **262,570** | (294,904) | **262,570** | (294,904) |
| Income tax for the period | 1,466,531 | 1,856,362 | 1,466,531 | 1,856,362 |
| Income tax paid | 1,699,143 | 2,413,836 | 1,699,143 | 2,413,836 |
| **Overpaid income tax (liability) as at 31 December** | **495,182** | **262,570** | **495,182** | **262,570** |

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

In LTL

| | The Group 2007 | The Group 2006 | The Company 2007 | The Company 2006 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Tax loss carried forward | 553,640 | 511,888 | - | - |
| Provisions | 229,444 | 263,552 | 228,694 | 259,202 |
| Accruals | 350,740 | 320,016 | 327,907 | 303,078 |
| Total deferred tax assets | 1,133,824 | 1,095,456 | 556,601 | 562,280 |
| Deferred tax liabilities: | | | | |
| Depreciation | (873,483) | (945,202) | (530,816) | (597,735) |
| Total deferred tax liabilities | (873,483) | (945,202) | (530,816) | (597,735) |
| **Total deferred tax assets/(liabilities), net** | **260,341** | **150,254** | **25,785** | **(35,455)** |
| Less: valuation allowance | (1,133,824) | (1,095,456) | (556,601) | (562,280) |
| **Total deferred tax (liability)** | **(873,483)** | **(945,202)** | **(530,816)** | **(597,735)** |

Lithuanian income tax law allows tax losses of prior periods to be carried forward for deduction against future period taxable profits for five years after the origin of the tax loss. The Company and the Group did not recognize deferred tax asset, because the management is cautious in estimating the probability of realization of tax benefits.

Maturity of tax loss carried forward is as follows:

| Maturity | Tax loss carried forward (In LTL) |
|---|---|
| 2008 | 280,807 |
| 2009 | 1,720,200 |
| 2010 | 776,060 |
| 2011 | 635,520 |
| 2012 | 278,349 |
| **Total** | **3,690,936** |

# Notes

## 24 Earnings per share

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net profit for the current year, LTL | 5,128,575 | 5,386,108 | 5,515,952 | 6,347,748 |
| Average number of ordinary shares | 39,956,657 | 39,956,657 | 39,956,657 | 39,956,657 |
| **Earnings per share** | **0.13** | **0.13** | **0.14** | **0.16** |

The Company had no dilutive shares outstanding during 2007 and 2006 or as at 31 December 2007 and 2006.

## 25 Commitments and contingencies

### Litigation and claims

As at 31 December 2007 and 2006, the Group and the Company were not involved in any legal proceedings, which in the opinion of the management would have a material impact on the financial statements.

The Company may have a legal dispute with Felder Industrietechnik GmbH, Germany concerning the execution of obligations according to a purchase agreement No. 2.631.01 dated 30 July 2004. As at 31 March 2007, Felder Industrietechnik GmbH claimed a total amount of 315,000 EUR from the Company as a final payment in accordance with this agreement. In 2007, the Company requested from Felder Industrietechnik GmbH for a discontinuation because of substantive breaches of the agreement, i.e. to finish intended work, to supply agreed equipment and to launch a new production line. The final payment was due after the work was finished. As at 23 January 2008, AB Grigiškės calculated and presented in writing to Felder Industrietechnik GmbH losses of 4,614,798 EUR (including lost income) accrued because of the failure of Felder Industrietechnik GmbH to fulfill its obligations prescribed in the agreement, as well as because of the improper execution of obligations and the failure in the timely launch of the production line. It is not possible to predict the result of any potential litigation objectively and accordingly the financial statements do not reflect any asset or liability in respect of this matter.

# Notes

## 26 Related party transactions

### The Group

During 2007, the Group entered into the following transactions and had the following outstanding balances as at 31 December 2007 with related parties:

| In LTL | Sale of goods and services | Purchase of goods and services | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|
| UAB Ginvildos Investicija | 500 | 465,750 | 31,098 | - |
| UAB Didma | 21,671 | 637,842 | - | 37,143 |
| UAB Remada | 5,825 | - | 579 | - |
| | **27,996** | **1,103,592** | **31,677** | **37,143** |

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

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

UAB Grigiškių Transporto Centras is not a consolidated subsidiary of the Group. UAB Grigiškių Transporto Centras net asset as at 31 December 2007 is 0 Litas. UAB Ginvildos Investicija is the main shareholder of AB Grigiškės. UAB Didma and UAB Remada are related to the Group management. All transactions with related parties were concluded on an arm's length basis.

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

| In LTL | 2007 | 2006 |
|---|---|---|
| Remuneration to management | 1,433,457 | 1,289,276 |
| Average number of managers | 10 | 10 |

# Notes

## 26 Related party transactions (cont'd)

### The Company

During 2007, the Company entered into the following transactions and had the following outstanding balances as at 31 December 2007 with related parties:

| In LTL | Sale of goods and services | Purchase of goods and services | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|
| UAB Baltwood | 6,180,473 | 1,583,585 | 3,916,346 | - |
| UAB Ginvildos Investicija | 500 | 465,750 | 31,098 | - |
| UAB Didma | 21,671 | 637,842 | - | 37,143 |
| UAB Remada | 5,825 | - | 579 | - |
| | **6,208,469** | **2,687,177** | **3,948,023** | **37,143** |

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

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

UAB Grigiškių Transporto Centras and UAB Baltwood are subsidiaries of the Company. UAB Ginvildos Investicija is the main shareholder of AB Grigiškės. UAB Didma and UAB Remada are related to the Company management.

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

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

| In LTL | 2007 | 2006 |
|---|---|---|
| Remuneration to management | 1,305,654 | 1,165,933 |
| Average number of managers | 9 | 9 |

# Notes

## 27 Off-balance sheet items

| Emission rights | Quantity |
|---|---|
| As at 31 December 2005 | 17,433 |
| Emission rights allocated | 49,762 |
| Emission rights used | (46,246) |
| Sale of emission rights | (15,000) |
| As at 31 December 2006 | 5,949 |
| Emission rights allocated | 49,762 |
| Emission rights used | (46,059) |
| Sale of emission rights | (9,000) |
| **As at 31 December 2007** | **770** |

Emission allowances received from the Government free of charge are classified as intangible assets and stated at a zero value.

# Annual report of AB Grigiškės for the year ended 31 December 2007

The year 2007 was a successful year for AB Grigiškės. The Company increased its turnover, large-scope production modernisation and development projects have been, or are close to being, completed. At the year end a new paper production machine has been put into operation; the new machine exceeds in its capacity the joint capacities of all three older machines of the Company.

During 2007, AB Grigiškės sold production and services for 134.1 million Litas. If to compare with the year 2006, sales increased by 22 per cent or 23.9 million Litas.

In 2007, profit from the ordinary activity before taxation amounted to 6.9 million Litas, as compared with 2006, decreased by 15 per cent or 1.2 million Litas. Net profit amounted to 5.5 million Litas, as compared with the previous year, it decreased by 13 per cent or 0.8 million Litas.

One of the more significant reasons for decrease in profit for 2007 was the one that in order to retain competitiveness of the Company in the labour market and to set presumptions for the organization of higher quality services, in 2007 the Company allocated nearly four million Litas more than in 2006 for the remuneration of the employees.

## Sales

In 2007, AB Grigiškės developed its production and sales of the products in three major directions:

- paper production, including: products for private consumers (toilet paper, paper towels, paper napkins) and products for businesses (toilet paper, paper towels). Sales of paper production in 2007, as compared to 2006, increased by 11 per cent, including: in Lithuania an increase of 27 per cent; in Poland – 42 per cent; in Russia – 30 per cent; in Estonia – 12 per cent. The share of the Baltic States market that toilet paper Grite makes increased from 18.5 per cent to 23 per cent during the year 2007. In 2007, the sales of Grite paper towels were also increasing: share of the market held in Lithuania increased from 13 per cent to 24 per cent, and the share of the market held in the Baltic States increased from 6 per cent to 10 per cent. In 2007, two novelties were introduced to the market: colorful toilet paper Grite VIVO which at the end of 2007 made 6 per cent of Lithuanian toilet paper market. The second novelty was paper towels Grite Sunny which at the end of the year made about 6 per cent of Lithuanian market.

- hardboard. Sales of these products, as compared with 2006, increased by 26 per cent.

- corrugated board and related production. Sales of these products, as compared with 2006, increased by 16 per cent.

**Financial indicators of 2007-2006**

| Indicator | The Company | | The Group | |
|---|---|---|---|---|
| | As at 31 December 2007 | As at 31 December 2006 | As at 31 December 2007 | As at 31 December 2006 |
| Profit per share (Litas) | 0.14 | 0.16 | 0.13 | 0.13 |
| Gross profit margin (per cent) | 18.92 | 21.10 | 18.75 | 20.70 |
| Net profit margin (per cent) | 4.11 | 5.76 | 3.56 | 4.49 |
| Return on assets (per cent) | 7.03 | 8.33 | 6.50 | 7.06 |
| Return on equity (per cent) | 12.07 | 13.70 | 12.16 | 12.66 |
| Debt to equity ratio | 0.71 | 0.64 | 0.86 | 0.79 |
| Debt ratio | 0.41 | 0.39 | 0.46 | 0.44 |

## Management of personnel

In the process of modernisation of work organisation system, AB Grigiškės:

- In 2006 – 2007 the Company received partial financing from EU support funds for the project *Improvement of competence of industrial workers*. Using the possibilities provided by the project, the Company raised qualifications of the employees, provided them with the most up-to-date and relevant knowledge in the fields of production organisation, business management.

- The average monthly salary per employee was increased by 32 per cent: from 1,769 Litas (in 2006) to 2,328 Litas (in 2007).

- Reduced number of employees from 795 persons (in 2006) to 724 persons (in 2007).

## Investments

In order to ensure increase in sales of products, decrease in expenses of production as well as improvement of the quality, in 2007 the Company invested 14 million Litas into manufacturing-technological capacity development of all three main directions of activities as well as modernisation of energy system:

- Increased capacities of paper production and adopted more advanced technologies of fibre processing and paper production allowed to produced a paper of more stabile and higher quality ratios, i.e. paper became cleaner, stronger and at the same time softer.

- After increase of hardboard production capacities and modernisation of manufacturing-technological equipment, the sales of these products, as compared with 2006, increased by 26 per cent.

- Having introduced a new automatic box making machine in addition to the implementation of other manufacturing-technological solutions, the sales of corrugated board boxes and related products, as compared with 2006, increased by 16 per cent.

## Plans for the year 2008

The Company plans that in 2008 the sales, as compared with 2007, will increase by 39 per cent, i.e. will reach 187 million Litas the Company also plans to earn 8.3 million Litas of net profit.

In 2008, AB Grigiškės plans to invest over 29 million Litas into modernisation of technological preparation of the production, modernisation of energetics and objects of environment protection infrastructure. With the help of these means the Company plans to retain high growth rates by intensifying work in traditional and new markets of products as well as by strengthening competitiveness of the products being sold.

The most significant investments in 2008 will be allocated to the development of paper production. It is foreseen to introduce advanced manufacturing-technological solutions and in the middle of the year start production of highest quality toilet paper, paper towels with imprinted texture. The paper will have better absorbing features and will be softer. These investments will create advantageous conditions for the development of paper production sales in new markets.

## The Group of AB Grigiškės

AB Grigiškės has two subsidiaries:

- UAB Baltwood, the main activity of which is processing of wood;
- UAB Grigiškių Transporto Centras, the main activity of which is trade in used vehicles. This company is not performing its activity since 2006.

The Company has also established a representative office in the Republic of Latvia.

In 2007, the turnover of the Group, consisting of AB Grigiškės and its subsidiary UAB Baltwood, as compared with the year 2006, increased by 24 million Litas or by more than 20 per cent and reached 144 million Litas.

During 2007, the Company generated net profit amounting to 5.1 million Litas.

In 2008, the Company plans to increase turnover of the sales by 39 per cent and to reach 200 million Litas.

## Shares of AB Grigiškės

The capital of the Company amounts to 39,956,657 ordinary registered shares with a nominal value of 1 Litas. All shares are fully paid.

The Company neither sold nor acquired its own shares during the accounting period.

APPENDIX:

Disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market (pages 57-75).

Chairman of the Board | Gintautas Pangonis

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

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

| PRINCIPLES/ RECOMMENDATIONS | YES/NO/NOT APPLICABLE | COMMENTARY |
|---|---|---|
| **Principle I: Basic Provisions**<br><br>**The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.** | | |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | Yes | The Company fully complies with this recommendation. Plans and forecasted results of the Company are published on an annual basis. |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes | All supreme managing bodies of the Company are focused on the implementation of the main objectives and tasks of the Company. |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Yes | The one-person managing body – the head of the Company, the collegial managing body – the management board and the supervisory body – the council of observers (supervisory board) cooperate in view of seeking the best benefit for the Company and its shareholders. |
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. | Yes | The Company fully complies with these recommendations. |
| **Principle II: The corporate governance framework**<br><br>**The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.** | | |
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | Yes | The Company fully complies with this recommendation, as its bodies consist of the single-person managing body (the head of the Company), the collegial managing body (the management board) and the supervisory body (the council of observers). |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. | Yes | The management board is responsible for strategic management of the Company and parries out other essential managerial functions in the Company. The council of observers (supervisory board) is responsible for the efficient supervision of the managing bodies of the Company. |

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

**Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting**

**The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**

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

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| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members. | No | Independency of the members of the council of observers has not been evaluated in the Company so far; the Company has not discussed the contents of the concept of "sufficiency" of independent members. |
| 3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:<br><br>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;<br><br>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;<br><br>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);<br><br>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);<br><br>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;<br><br>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;<br><br>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is | Yes | According to the criteria laid down in paragraph 3.7, there is an independent member in the council of observers of the Company. |

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| the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;<br><br>8) He/she has not been in the position of a member of the collegial body for over than 12 years;<br><br>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. | | |
| 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. | No | The Company has not defined the concept of independency. |
| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | No | The Company has not applied so far the practice of evaluation and announcement of independency of the members of the council of observers. |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | No | The Company has not applied so far the practice of evaluation and announcement of independency of the members of the council of observers. |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration. | No | Members of the collegial bodies are not remunerated for their work from the funds of the Company. |

**Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting**

**The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**

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

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

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

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| 4.12. Nomination Committee.<br>4.12.1. Key functions of the nomination committee should be the following:<br><br>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;<br>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;<br>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;<br>• Properly consider issues related to succession planning;<br>• Review the policy of the management bodies for selection and appointment of senior management.<br><br>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee. | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |
| 4.13. Remuneration Committee.<br>4.13.1. Key functions of the remuneration committee should be the following:<br>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;<br>• Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);<br>• Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |

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| body) with regard to the respective information provided by the executive directors and members of the management bodies.<br>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:<br>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;<br>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;<br>• Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.<br>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. | | |
| 4.14. Audit Committee.<br>4.14.1. Key functions of the audit committee should be the following:<br>• Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);<br>• At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;<br>• Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;<br>• Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;<br>• Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;<br>• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. | No | No committees have been formed in the Company so far. Also, conflicts of interests in the fields relating to appointment of directors of the Company, establishment of salary to the directors of the Company as well as audit control and evaluation of the Company have been avoided so far. |

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| 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.<br><br>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.<br><br>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.<br><br>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.<br><br>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.<br><br>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. | | |
| 4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. | No | Such practice has not been applied in the Company. |

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| **Principle V: The working procedure of the company's collegial bodies**<br><br>**The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.** | | |
| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting. | Yes | The Company fully complies with these recommendations. |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month. | Yes | Sittings of the collegial bodies of the Company are held at such intervals as are necessary to ensure uninterrupted tackling of essential issues relating to the management of the Company. |
| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution. | Yes | Members of the collegial bodies are notified on the sitting in advance (before three days) by sending them the agenda and materials of the sitting by e-mail, so that they'd have enough time to properly prepare for consideration of the issues to be addressed at the sitting and share in useful discussions leading to adoption of proper resolutions. |
| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed. | Yes | In order to coordinate operations of the collegial bodies of the Company and to ensure efficient decision-making process, chairpersons of the collegial supervisory and managing bodies of the Company agree upon the dates and agendas of future sittings, closely cooperate in tackling other issues relating to the management of the Company. |

| **Principle VI: The equitable treatment of shareholders and shareholder rights**<br><br>**The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.** | | |
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| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | Yes | The authorized capital of the Company is comprised of 39.956.657 ordinary shares. The par value of one share is LTL 1. All shareholders of the Company enjoy equal rights. |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company fully complies with this recommendation. |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | Yes | Support of the general meeting of shareholders is required for transactions which criteria are defined in the Articles of Association of the Company and introduced to the shareholders in advance. |
| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them. | Yes | Procedures of convocation and holding the general meetings of shareholders of AB Grigiškės create the shareholders equal opportunities to attend the meetings and do not violate their rights and interests. Notices of convocation of the general meeting are published in the *Lietuvos Rytas* daily, as it is stipulated in the Articles of Association of the Company. The place, date, time and agenda of the meeting shall be specified in the notice. In addition, information is also published on the website of the Company: www.grigiskes.lt. |
| 6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes | At least 10 days before the general meeting, the shareholders should be provided with the access to the Company's documents related to the agenda. This information is disclosed through the information disclosure system of the Vilnius Stock Exchange as well as on the website of the Company: www.grigiskes.lt.<br><br>Where requested by a shareholder in writing, the head of the Company shall hand all draft resolutions of the meeting to that shareholder against his/her signature or send the same by registered male within 3 days after receipt of the mentioned written request. |
| 6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | Shareholders of AB Grigiškės may exercise their right to attend the general meeting of shareholders personally or through a proxy, provided such a person is properly authorised or is a party to a voting right cession agreement made in the statutory procedure; also, the shareholders of the Company may vote by filling in common ballot-papers as it is stipulated in the Company Law. |

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| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies. | No | The Company does not comply with the provisions of this recommendation, because there have been no such request on the part of the shareholders. |
| **Principle VII: The avoidance of conflicts of interest and their disclosure**<br><br>**The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.** | | |
| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | Yes | The Company fully complies with these recommendations. |
| 7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting. | Yes | The Company fully complies with these recommendations. |
| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | Yes | The Company fully complies with these recommendations. |
| 7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on. | Yes | The Company fully complies with these recommendations. |
| **Principle VIII: Company's remuneration policy**<br><br>**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.** | | |
| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website. | No | Such practice has not been applied in the Company so far. |

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

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| sharing were granted;<br>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;<br>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;<br>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.<br>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:<br>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;<br>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;<br>• The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;<br>• All changes in the terms and conditions of existing share options occurring during the financial year.<br>8.7.3. The following supplementary pension schemes-related information should be disclosed:<br>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;<br>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.<br>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate. | | |
| 8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. | No | Such practice has not been applied in the Company so far. |
| 8.9. The following issues should be subject to approval by the shareholders' annual general meeting:<br>• Grant of share-based schemes, including share options, to directors;<br>• Determination of maximum number of shares and main conditions of share granting;<br>• The term within which options can be exercised;<br>• The conditions for any subsequent change in the exercise of the options, if permissible by law;<br>• All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. | No | Such practice has not been applied in the Company so far. |

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| 8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval. | No | Such practice has not been applied in the Company so far. |
| 8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting. | No | Such practice has not been applied in the Company so far. |
| 8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website. | No | Such practice has not been applied in the Company so far. |
| **Principle IX: The role of stakeholders in corporate governance**<br><br>**The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.** | | |
| 9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. | Yes | The Company complies with all statutory requirements aimed at ensuring the rights of interest holders. |
| 9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. | Yes | The Company complies with all statutory requirements aimed at ensuring the rights of interest holders. |
| 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | Yes | The Company complies with all statutory requirements aimed at ensuring the rights of interest holders. |

**Principle X: Information disclosure and transparency**

**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**

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| 10.1. The company should disclose information on:<br>• The financial and operating results of the company;<br>• Company objectives;<br>• Persons holding by the right of ownership or in control of a block of shares in the company;<br>• Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;<br>• Material foreseeable risk factors;<br>• Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br>• Material issues regarding employees and other stakeholders;<br>• Governance structures and strategy.<br><br>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. | Yes | The Company complies with this recommendation. |
| 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure | Yes | The Company complies with this recommendation. |
| 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. | No | Such practice has not been applied in the Company so far. |
| 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure | Yes | The Company fully complies with this recommendation. |
| 10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions. | Yes | The Company publishes information through the information system of the Vilnius Stock Exchange in Lithuanian and English simultaneously, of possible. The Stock Exchange places the received information on its home page and trade system, thus ensuring simultaneous placement of information to all readers. In addition, the Company, if possible, publishes its information prior to or after trade sessions of the Vilnius Stock Exchange and provides information for all markets where securities of the Company are traded simultaneously. The Company does not publish in commentaries, interviews or otherwise any information likely to affect the price of its emitted securities until such information is announced through the information system of the Stock Exchange.<br><br>The mentioned information is also placed on the website of the Company: www.grigiskes.lt. |

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| 10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well. | Yes | Essential events, press releases, activity reports and other information important for the shareholders are published on the website of the Company in Lithuanian and English. |
| 10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too. | Yes | The Company fully complies with this recommendation. |
| **Principle XI: The selection of the company's auditor**<br><br>**The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.** | | |
| 11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | Yes | The Company complies with this recommendation, except for audited of interim financial statement. |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting. | Yes | An audit company is proposed to the general meeting of shareholders by the council of observers. |
| 11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting. | Not applicable | Audit company has not rendered other services for the Company. |