

## **AB Grigiškės**

**CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012,  
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL  
REPORTING STANDARDS,  
AS ADOPTED BY THE EUROPEAN UNION,  
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

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## Independent Auditor's Report

To the Shareholders of AB Grigiškės

### Report on the Parent Company's and Consolidated Financial Statements

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

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

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

### *Opinion*

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

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

### **Report on Other Legal and Regulatory Requirements**

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

On behalf of KPMG Baltics, UAB



Rokas Kasperavičius  
Partner pp  
Certified Auditor



Ieva Voverienė  
Certified Auditor

Vilnius, Republic of Lithuania  
4 April 2013

## STATEMENTS OF FINANCIAL POSITION

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

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## STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Notes	Group		Company	
		As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	10	60,000,000	60,000,000	60,000,000	60,000,000
Legal reserve	10	4,898,670	4,221,919	4,898,670	4,221,919
Foreign currency translation reserve		(354,420)	(59,777)	-	-
Retained earnings		39,461,183	31,356,702	34,826,430	28,221,313
Equity attributable to equity holders of the parent		104,005,433	95,518,844	99,725,100	92,443,232
Non-controlling interests		2,100,568	2,977,858	-	-
<b>Total equity</b>		<b>106,106,001</b>	<b>98,496,702</b>	<b>99,725,100</b>	<b>92,443,232</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Grants and subsidies	12	8,214,716	8,732,291	8,099,580	8,732,291
Non-current borrowings	13	50,728,916	69,533,156	11,217,373	16,249,993
Financial lease obligations	14	3,184,230	4,052,409	2,865,026	3,626,050
Deferred income tax liability	23	1,999,364	1,790,088	-	417,613
Non-current employee benefits	15	648,608	789,363	169,349	170,095
Long-term trade payables		186,451	-	186,451	-
<b>Total non-current liabilities</b>		<b>64,962,285</b>	<b>84,897,307</b>	<b>22,537,779</b>	<b>29,196,042</b>
<b>Current liabilities</b>					
Current portion of long term loans		14,285,395	12,023,517	7,265,600	3,500,642
Current borrowings	13	22,763,353	8,137,151	14,356,272	6,137,151
Current portion of financial lease obligations	14	3,254,648	3,752,086	2,726,658	2,936,417
Income tax payable		574,615	130,781	493,885	82,688
Trade and other payables	16	42,162,317	42,757,583	17,492,296	16,639,942
<b>Total current liabilities</b>		<b>83,040,328</b>	<b>66,801,118</b>	<b>42,370,711</b>	<b>29,296,840</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>254,108,614</b>	<b>250,195,127</b>	<b>164,633,590</b>	<b>150,936,114</b>

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

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

  
Gintautas Pangonis  
President

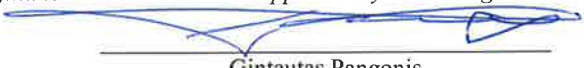
  
Nina Šilerienė  
Vice president, Finance

## STATEMENTS OF COMPREHENSIVE INCOME

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

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

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

  
Gintautas Pangonis  
President

  
Nina Šilerienė  
Vice president, Finance

## STATEMENTS OF CHANGES IN EQUITY

### Group

	Equity attributable to equity holders of the parent					Non-controlling interest	Total equity:
	Share capital	Legal reserve	Foreign currency translation reserve	Retained earnings	TOTAL:		
<b>Balance as at 31 December 2010</b>	<b>60,000,000</b>	<b>4,145,934</b>	<b>(53,388)</b>	<b>20,273,624</b>	<b>84,366,170</b>	<b>2,822,509</b>	<b>87,188,679</b>
Net profit for the year	-	-	-	12,654,614	12,654,614	129,642	12,784,256
Other comprehensive income (expenses)	-	-	(6,389)	-	(6,389)	-	(6,389)
Total comprehensive income (expense) for the year	-	-	(6,389)	12,654,614	12,648,225	129,642	12,777,867
Transfer to legal reserve	-	75,985	-	(75,985)	-	-	-
Dividends declared (Note 25)	-	-	-	(1,200,000)	(1,200,000)	(269,844)	(1,469,844)
Disposal of controlling interests (Note 1)	-	-	-	(295,551)	(295,551)	295,551	-
<b>Balance as at 31 December 2011</b>	<b>60,000,000</b>	<b>4,221,919</b>	<b>(59,777)</b>	<b>31,356,702</b>	<b>95,518,844</b>	<b>2,977,858</b>	<b>98,496,702</b>
Net profit for the year	-	-	-	9,358,500	9,358,500	(27,959)	9,330,541
Other comprehensive income (expenses)	-	-	(294,643)	-	(294,643)	-	(294,643)
Total comprehensive income (expenses) for the year	-	-	(294,643)	9,358,500	9,063,857	(27,959)	9,035,898
Transfer to legal reserve	-	676,751	-	(676,751)	-	-	-
Change of non-controlling interest	-	-	-	622,732	622,732	(622,732)	-
Dividends declared (Note 25)	-	-	-	(1,200,000)	(1,200,000)	(226,599)	(1,426,599)
<b>Balance as at 31 December 2012</b>	<b>60,000,000</b>	<b>4,898,670</b>	<b>(354,420)</b>	<b>39,461,183</b>	<b>104,005,433</b>	<b>2,100,568</b>	<b>106,106,001</b>

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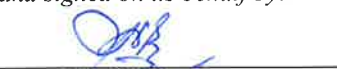
## STATEMENTS OF CHANGES IN EQUITY (CONT'D)

Company	Share capital	Legal reserve	Other reserves	Retained earnings	Total equity:
<b>Balance as at 31 December 2010</b>	<b>60,000,000</b>	<b>4,145,934</b>	-	<b>15,962,278</b>	<b>80,108,212</b>
Net profit for the year	-	-	-	13,535,020	13,535,020
Other comprehensive income (expenses)	-	-	-	-	-
Total comprehensive income (expense) for the year	-	-	-	13,535,020	13,535,020
Dividends declared (Note 25)	-	-	-	(1,200,000)	(1,200,000)
Transfer to legal reserve	-	75,985	-	(75,985)	-
<b>Balance as at 31 December 2011</b>	<b>60,000,000</b>	<b>4,221,919</b>	-	<b>28,221,313</b>	<b>92,443,232</b>
Net profit for the year	-	-	-	8,481,868	8,481,868
Other comprehensive income (expenses)	-	-	-	-	-
Total comprehensive income (expense) for the year	-	-	-	8,481,868	8,481,868
Dividends declared (Note 25)	-	-	-	(1,200,000)	(1,200,000)
Transfer to legal reserve	-	676,751	-	(676,751)	-
<b>Balance as at 31 December 2012</b>	<b>60,000,000</b>	<b>4,898,670</b>	-	<b>34,826,430</b>	<b>99,725,100</b>

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

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

  
Gintautas Pangonis  
President

  
Nina Šilerienė  
Vice president, Finance

## STATEMENTS OF CASH FLOWS

Notes	Group		Company	
	2012	2011	2012	2011
<b>Cash flows from (to) operating activities</b>				
Profit before income tax	10,642,419	12,063,945	8,718,001	13,487,658
<b>Adjustments for non-cash items:</b>				
Depreciation and amortisation net of grant	22,385,923	21,508,136	11,397,341	13,454,114
Finance (income) expenses, net	22 2,557,847	7,220,124	493,410	(4,434,618)
Loss (gain) on disposal of property, plant and equipment	(872,433)	(110,479)	(2,277,355)	(110,479)
Allowance (reversal) for slow moving inventory, write-off to net realizable value	7 (552,338)	573,362	(67,837)	(95,231)
Property, plant and equipment impairment losses (reversal)	(6,250)	(84,247)	(6,250)	(84,247)
Allowance for doubtful accounts receivable (reversal)	8 4,896	(67,849)	141,446	(401,231)
	34,160,064	41,102,992	18,534,430	21,815,966
<b>Changes in working capital:</b>				
(Increase) decrease in trade receivables and other receivables	(814,047)	1,983,308	1,690,658	623,470
(Increase) decrease in inventories	3,815,525	(5,487,831)	(1,182,558)	(121,972)
(Increase) decrease in other assets	81,665	467,569	29,134	109,405
Increase (decrease) in trade and other payables	243,970	1,068,671	(1,412,383)	(4,083,606)
	3,327,113	(1,968,283)	1,949,617	(3,472,703)
Interest (paid)	(2,490,845)	(3,136,315)	(990,120)	(1,265,123)
Income tax (paid)	(1,603,601)	(2,100,729)	(287,008)	(204,650)
<b>Net cash flows from (to) operating activities</b>	<b>33,392,731</b>	<b>33,897,665</b>	<b>19,206,919</b>	<b>16,873,490</b>

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## STATEMENTS OF CASH FLOWS (CONT'D)

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

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

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

  
Gintautas Pangonis  
President

  
Nina Šilerienė  
Vice president, Finance

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

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

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

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

#### Structure of the Group

On 31 December 2012 and on 31 December 2011 AB Grigiškės group consists of AB Grigiškės and the following subsidiaries (hereinafter referred to as the Group):

Name	2012				2011			
	Share of the stock held by the Group	Size of investment (cost)	Profit (loss) for the reporting period	Equity at the end of reporting period (100 %)	Share of the stock held by the Group	Size of investment (cost)	Address	Principal activity
<b>Subsidiaries directly controlled by the Company:</b>								
UAB Baltwood	100%	27,592,000	1,290,847	26,497,813	100%	27,592,000	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Wood processing: production of wood for containers, fuel pellets and bonded furniture panels. Starting from 02.01.2012 also produces hardboards and coloured hardboards of wood fibre.
UAB Ekotara	100%	10,000	-	10,004	100%	10,000	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Corrugated board and packaging from corrugated board manufacturing. No operations in 2012 and 2011.
UAB Naujieji Verkiai	100%	-	6,298	(61,749)	100%	-	Popieriaus St. 15, Vilnius, Lithuania	Building and development of real estate.
UAB AGR Prekyba	100%	13,143,923	4,498,401	21,627,784	100%	10,343,923	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Investment activities and corporate governance.
UAB Grigiškių energija	100%	10,000	(8,263)	154	50%	5,000	Vilniaus St. 14, Grigiškės, Vilnius Mun., Lithuania	Heat production and sale. No operations in 2012.
		40,755,923				37,950,923		
<b>Subsidiaries indirectly controlled by the Company:</b>								
AB Klaipėdos Kartonas	95.78%	-	(213,175)	44,499,873	95,78%	-	Nemuno St. 2, Klaipėda, Lithuania	Manufacturing of raw materials for production of corrugated board – test liner and fluting, production of paper honeycomb used in furniture industry.
UAB Klaipėda Recycling	94,18%	-	(165,904)	2,875,648	71,74%	-	Nemuno St. 2, Klaipėda, Lithuania	Waste-paper procurement.
PAT Mena Pak	93.79%	-	468,407	11,459,784	93,79%	-	Koshevo St. 6, Chernigovo distr., Mena, Ukraine	Corrugated board and packaging from corrugated board manufacturing.

**1. General information (cont'd)**

Changes in the Group in 2012

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

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

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

Changes in the Group in 2011

In 2011 AB Grigiškės established a subsidiary UAB Grigiškių Energija, and the half of the shares was sold to the third parties in the same year. The Company retained control over subsidiary as the management of the subsidiary was assigned by the Company. The company did not perform any operations in 2012 and 2011.

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

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

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

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

The value of Company's net assets related to activities transferred was equal to LTL 16,747 thousand, value of subsidiary's shares received was equal to LTL 22,587 thousand. The difference of LTL 5,840 thousand between net assets and shares received was accounted as financial income of the Company (included into table below) in the year ended 31 December 2011. The effect of activities transfer was eliminated at the Group level.

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

**1. General information (cont'd)**

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

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

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

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

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

The net assets of transferred activity to subsidiary UAB Baltwood in 2011 are presented below:

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

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

The Company's management authorised these financial statements on 4 April 2013. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

## 2. Accounting policies

### 2.1. Basis of preparation

The current year financial statements of the Group and the Company are prepared in accordance with International Financial Reporting Standards effective as at 31 December 2012 that have been adopted for use in the European Union.

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

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

The accounting policies applied by the Group and the Company to all financial information reported in these financial statements are consistent with the accounting policies of the previous year. New IFRSs which became effective in 2012 did not have material impact on the financial statements.

#### **Approved, but not yet effective standards and interpretations**

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

- Amendments to IFRS 7 and IAS 32 on *Offsetting Financial Assets and Financial Liabilities*  
Amendments to IFRS 7 *Disclosures* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.  
  
Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Group and the Company do not expect the Amendments to have a significant impact on the financial statements, as they have not entered into master netting or similar arrangements.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:
  - (1) it is exposed or has rights to variable returns from its involvements with the investee;
  - (2) it has the ability to affect those returns through its power over that investee; and
  - (3) there is a link between power and returns.

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

## 2. Accounting policies (cont'd)

### 2.1. Basis of preparation (cont'd)

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

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

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

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

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

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

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

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

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



## 2. Accounting policies (cont'd)

### 2.1. Basis of preparation (cont'd)

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

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

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

## **2. Accounting policies (cont'd)**

### **2.2. Going concern**

These financial statements for the year ended 31 December 2012 are prepared under the assumption that the Group and the Company will continue as a going concern. The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of credit facilities to meet its commitments at a given date in accordance with its strategic plans. As at 31 December 2012 current liabilities of the Group and the Company exceeded its current assets by LTL 28,545 thousand and LTL 21,500 thousand respectively.

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

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

The Company has prepared a forecast of the Group's operations for 2013, which allows the management to be confident about the Group's improved operational performance.

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

### **2.3. Basis of consolidation**

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

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

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

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

## **2. Accounting policies (cont'd)**

### **2.4. Business combinations and goodwill**

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

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

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

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units (refer to Note 2.24.).

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

### **2.5. Measurement and presentation currency**

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania – Lithuanian litas (LTL).

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

Transactions in foreign currencies are initially recorded in the functional currency as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange as at the date of the statement of financial position. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction.

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

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

## **2. Accounting policies (cont'd)**

### **2.6. Investments in subsidiaries (the Company)**

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

As described in Note 1, at the end of 2011 the Company transferred a segment of its operations to one of its 100% subsidiaries. From the point of view of separate financial statements of AB Grigiškės, this is in-kind contribution to the existing subsidiary. There is no guidance under IFRS on how to account for business contributions by the parent in its separate financial statements.

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

### **2.7. Intangible assets other than goodwill**

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

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

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

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

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

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

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

### **2.8. Property, plant and equipment**

Property, plant and equipment are stated at cost (or deemed cost – see below) less accumulated depreciation and impairment losses.

Before 31 December 2010, buildings were accounted as follows:

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

As at 31 December 2010, according to the exception available under IFRS 1, part of buildings, acquired before 1 January 1996, were measured at fair values, determined as at that date by independent property valuer, and these values were used as deemed cost at that date.

## **2. Accounting policies (cont'd)**

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

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

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

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

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

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

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

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

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

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

### **2.9. Investment property**

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

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

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

## **2. Accounting policies (cont'd)**

### **2.10. Emission allowances**

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

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

Member States must ensure that by 30 April of the following year at the latest, that the operator of each installation surrenders a number of allowances equal to the total emissions from that installation during the preceding calendar year.

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

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

### **2.11. Financial assets**

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

#### **Financial assets at fair value through profit or loss**

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

The Group and the Company does not have any financial instruments at fair value through profit or loss as at 31 December 2012 and 2011.

## **2. Accounting policies (cont'd)**

### **2.11 Financial assets (cont'd)**

#### **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group / the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

The Group and the Company does not have any held-to-maturity investments as at 31 December 2012 and 2011.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account – refer to Note 2.24 for measurement of impairment losses. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

#### **Available-for-sale financial assets**

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

The Group and the Company does not have any available for sale financial assets as at 31 December 2012 and 2011.

### **2.12. Offsetting financial assets and financial liabilities**

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

## **2. Accounting policies (cont'd)**

### **2.13. Derecognition of financial assets and liabilities**

#### **Financial assets**

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

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

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

#### **Financial liabilities**

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

### **2.14. Inventories**

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of inventory is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory has been fully written-off.

### **2.15. Cash and cash equivalents**

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

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



## **2. Accounting policies (cont'd)**

### **2.16. Borrowings**

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

The Group and the Company capitalise borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no significant borrowing costs matching the capitalisation criteria in 2012 and in 2011.

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

### **2.17. Financial lease and operating lease**

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

#### **Financial lease – Group and the Company as a lessee**

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

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

#### **Operating lease – the Group and the Company as lessee**

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

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

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

## **2. Accounting policies (cont'd)**

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

#### **Operating lease – the Group and the Company as lessor**

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

### **2.18. Non-current employee benefits**

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

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

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

### **2.19. Financial guarantee contracts**

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

### **2.20. Grants and subsidies**

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

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

### **2.21. Trade and other payable**

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

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

## **2. Accounting policies (cont'd)**

### **2.22. Income tax**

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

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

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments and for the losses accumulated in the Ukrainian company (under the Ukrainian law, losses can be carried forward for 4 years). Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature.

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

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

### **2.23. Revenue recognition**

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

Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed. Group entity UAB Baltwood is engaged in production of wooden houses. When product is ready, the contractor approves the order and makes payment, while product is brought to the contractor only after separate notice. The entity recognises income and expenses at the moment when contractor gives notice that order is completed as it is stated in the agreement that risks related to the product are then transferred to contractor.

Revenue from services is recognised when services are rendered.

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

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

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

## **2. Accounting policies (cont'd)**

### **2.24. Impairment of assets**

#### **Financial assets**

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

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

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

#### **Impairment of non-financial assets**

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

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

### **2.25. Use of estimates in the preparation of financial statements**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation (Notes 2.8, 2.9, 4, 6), amortisation (Note 2.7 and Note 5), valuation of buildings (Note 2.8, Note 4), non-current employee benefits (Note 2.18 and Note 15), impairment evaluation of goodwill (Note 2.4, Note 5), recognition of deferred income tax asset (Note 2.22, Note 23), and impairment evaluation of other assets (Note 2.24, Notes 7 and 8). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

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

## **2. Accounting policies (cont'd)**

### **2.26. Contingencies**

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

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

### **2.27. Comparative information**

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

### **2.28. Discontinued (transferred) operations**

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

### **2.29. Subsequent events**

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

## **3. Financial assets and liabilities and risk management**

### **Credit risk**

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

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

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

#### Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2012 and 2011 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings	-	3,153,898	35,337,649	40,552,239	13,115,446	92,159,232
Financial lease obligations	-	964,851	2,371,811	3,274,114	-	6,610,776
Trade payables	-	32,807,272	-	-	-	32,807,272
Other current liabilities	1,207,983	620,585	-	-	-	1,648,568
<b>Balance as at 31 December 2012</b>	<b>1,027,983</b>	<b>37,546,606</b>	<b>37,709,460</b>	<b>43,826,353</b>	<b>13,115,446</b>	<b>133,225,848</b>
Interest bearing borrowings	-	3,256,078	18,852,885	54,636,443	19,837,537	96,582,943
Financial lease obligations	-	927,836	2,972,887	4,177,003	-	8,077,726
Trade payables	-	32,560,874	-	-	-	32,560,874
Other current liabilities	998,232	2,393,075	-	-	-	3,391,307
<b>Balance as at 31 December 2011</b>	<b>998,232</b>	<b>39,137,863</b>	<b>21,825,772</b>	<b>58,813,446</b>	<b>19,837,537</b>	<b>140,612,850</b>

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2012 and 2011 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings	-	1,126,734	20,876,166	11,746,893	-	33,749,793
Financial lease obligations	-	800,292	2,032,403	2,942,712	-	5,775,407
Payables to related parties	-	3,168,569	-	-	-	3,168,569
Trade payables	-	11,035,331	-	-	-	11,035,331
Other current liabilities	472,690	144,080	-	-	-	616,770
<b>Balance as at 31 December 2012</b>	<b>472,690</b>	<b>16,275,006</b>	<b>22,908,569</b>	<b>14,689,605</b>	<b>-</b>	<b>54,345,870</b>
Interest bearing borrowings	-	774,032	9,423,710	17,054,209	-	27,251,951
Financial lease obligations	-	819,865	2,210,517	3,738,146	-	6,768,528
Payables to related parties	-	1,843,004	-	-	-	1,843,004
Trade payables	-	11,093,937	-	-	-	11,093,937
Other current liabilities	442,939	1,253,465	-	-	-	1,696,404
<b>Balance as at 31 December 2011</b>	<b>442,939</b>	<b>15,784,303</b>	<b>11,634,227</b>	<b>20,792,355</b>	<b>-</b>	<b>48,653,824</b>

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

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

#### Liquidity risk (cont'd)

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

#### Interest risk

The major part of the Group's and the Company's borrowings (loans and financial lease obligations) are subject to variable rates, related to LIBOR, EURIBOR and VILIBOR, which creates an interest rate risk (Notes 13 and 14). There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as at 31 December 2012 and 2011.

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

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

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

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

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

#### Foreign exchange risk

The Company's monetary assets and liabilities as at 31 December 2012 and 2011 are denominated in LTL or EUR, to which LTL is pegged, consequently the management of the Company believes that foreign exchange risk on EUR is insignificant. Monetary assets and liabilities of the Group denominated in various currencies as at 31 December 2012 were as follows (equivalent in LTL):

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

Monetary assets and liabilities of the Group denominated in various currencies as at 31 December 2011 were as follows (equivalent in LTL):

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

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

2012	Increase/decrease in basis points		Effect on the profit before the income tax
USD		+10	(28,941)
USD		-10	28,941
UAH		+10	297,119
UAH		-10	(297,119)
2011			
USD		+10	(91.817)
USD		-10	91.817
UAH		+10	160,971
UAH		-10	(160,971)

#### Fair value of financial instruments

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

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

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

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



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

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

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

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

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

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

**4. Property, plant and equipment**

Group	Buildings and structures	Machinery and equipment	Vehicles	Other assets	Construction in progress and prepayments	TOTAL
<b>Cost:</b>						
<b>Balance as at 31 December 2010</b>	<b>75,487,852</b>	<b>157,066,332</b>	<b>5,496,183</b>	<b>4,336,618</b>	<b>17,339,591</b>	<b>259,726,576</b>
Additions	924,231	7,172,825	752,379	795,399	19,380,759	29,025,593
Disposals and write-offs	(444,090)	(9,488,987)	(459,772)	(718,210)	-	(11,111,059)
Transfer*	120,303	472,369	-	(112,324)	-	480,348
Transfer from construction in progress to property, plant and equipment	2,113,204	18,493,683	52,181	-	(20,681,632)	(22,564)
Reclassifications	1,806,071	(1,742,087)	(79,958)	15,974	-	-
Effect of foreign currency translation	95,462	70,774	5,937	7,091	(2,641)	176,623
<b>Balance as at 31 December 2011</b>	<b>80,103,033</b>	<b>172,044,909</b>	<b>5,766,950</b>	<b>4,324,548</b>	<b>16,036,077</b>	<b>278,275,517</b>
Additions	5,412,362	9,711,529	1,057,672	1,336,092	11,440,245	28,957,900
Disposals and write-offs	(40,200)	(5,225,639)	(623,055)	(107,595)	(105,280)	(6,101,769)
Transfer from construction in progress to property, plant and equipment and intangibles	7,888,321	8,621,439	26,999	100,797	(16,637,556)	-
Transfer from investment property (Note 6)	1,329,000	-	-	-	-	1,329,000
Reclassifications	-	-	-	-	-	-
Effect of foreign currency translation	(185,397)	(112,120)	(6,815)	(5,380)	-	(309,712)
<b>Balance as at 31 December 2012</b>	<b>94,507,119</b>	<b>185,040,118</b>	<b>6,221,751</b>	<b>5,648,462</b>	<b>10,733,486</b>	<b>302,150,936</b>
<b>Accumulated depreciation and impairment:</b>						
<b>Balance as at 31 December 2010</b>	<b>5,185,325</b>	<b>81,956,934</b>	<b>3,699,689</b>	<b>2,886,553</b>	<b>-</b>	<b>93,728,501</b>
Depreciation	3,495,213	16,919,249	721,677	629,334	-	21,765,473
Impairment loss/(reversal)	(6,250)	(77,997)	-	-	-	(84,247)
Disposals and write-offs	(85,948)	(9,033,714)	(439,922)	(713,856)	-	(10,273,440)
Transfer*	(16,998)	501,131	-	(3,780)	-	480,353
Reclassifications	272,517	(226,041)	(62,449)	15,973	-	-
Effect of foreign currency translation	29,163	46,123	1,162	3,740	-	80,188
<b>Balance as at 31 December 2011</b>	<b>8,873,022</b>	<b>90,085,685</b>	<b>3,920,157</b>	<b>2,817,964</b>	<b>-</b>	<b>105,696,828</b>
Depreciation	3,978,050	17,134,696	636,186	676,988	-	22,425,920
Impairment loss/(reversal)	(6,250)	-	-	-	-	(6,250)
Disposals and write-offs	(40,192)	(5,169,782)	(589,750)	(102,075)	-	(5,901,799)
Reclassifications	-	-	-	-	-	-
Effect of foreign currency translation	(40,870)	(40,807)	(1,165)	(3,121)	-	(85,963)
<b>Balance as at 31 December 2012</b>	<b>12,763,760</b>	<b>102,009,792</b>	<b>3,965,428</b>	<b>3,389,756</b>	<b>-</b>	<b>122,128,736</b>
<b>Net book value as at 31 December 2011</b>	<b>71,230,011</b>	<b>81,959,224</b>	<b>1,846,793</b>	<b>1,506,584</b>	<b>16,036,077</b>	<b>172,578,689</b>
<b>Net book value as at 31 December 2012</b>	<b>81,743,359</b>	<b>83,030,326</b>	<b>2,256,323</b>	<b>2,258,706</b>	<b>10,733,486</b>	<b>180,022,200</b>

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

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

Company	Buildings and structures	Machinery and equipment	Vehicles	Other assets	Construction in progress and prepayments	TOTAL:
<b>Cost:</b>						
<b>Balance as at 31 December 2010</b>	32,525,715	120,714,175	3,701,940	3,426,723	16,724,337	177,092,890
Additions	798,652	6,433,221	473,473	372,354	15,670,412	23,748,112
Transfer to subsidiary (Note 1)	(16,884,235)	(28,483,844)	(1,637,007)	(794,068)	-	(47,799,154)
Disposals and write-offs	(39,397)	(9,462,264)	(459,771)	(713,328)	-	(10,674,760)
Transfer from construction in progress to property, plant and equipment	2,113,204	14,584,795	-	-	(16,697,999)	-
Reclassifications*	1,806,071	(1,742,087)	(79,958)	15,974	-	-
<b>Balance as at 31 December 2011</b>	20,320,010	102,043,996	1,998,677	2,307,655	15,696,750	142,367,088
Additions	5,442,214	8,677,837	209,865	549,580	8,866,038	23,745,534
Disposals and write-offs	(40,200)	(4,986,331)	(147,686)	(84,373)	-	(5,258,590)
Transfer from construction in progress to property, plant and equipment	7,055,182	7,669,400	26,999	7,682	(14,759,263)	-
Reclassifications	-	-	-	-	-	-
<b>Balance as at 31 December 2012</b>	32,777,206	113,404,902	2,087,855	2,780,544	9,803,525	160,854,032
<b>Accumulated depreciation and impairment:</b>						
<b>Balance as at 31 December 2010</b>	3,048,748	71,980,132	2,644,856	2,774,874	-	80,448,610
Depreciation	1,672,866	11,311,721	475,123	306,003	-	13,765,713
Impairment loss/(reversal)	(6,250)	(77,997)	-	-	-	(84,247)
Disposals and write-offs	(39,395)	(9,015,063)	(439,923)	(709,021)	-	(10,203,402)
Transfer to subsidiary (Note 1)	(1,790,985)	(24,087,082)	(1,413,911)	(563,027)	-	(27,855,005)
Reclassifications	272,517	(226,041)	(62,449)	15,973	-	-
<b>Balance as at 31 December 2011</b>	3,157,501	49,885,670	1,203,696	1,824,802	-	56,071,669
Depreciation	1,283,784	10,170,992	270,488	249,000	-	11,974,264
Impairment loss/(reversal)	(6,250)	-	-	-	-	(6,250)
Disposals and write-offs	(40,192)	(4,940,079)	(147,282)	(83,279)	-	(5,210,832)
Reclassifications	-	-	-	-	-	-
<b>Balance as at 31 December 2012</b>	4,394,843	55,116,583	1,326,902	1,990,523	-	62,828,851
<b>Net book value as at 31 December 2011</b>	<b>17,162,509</b>	<b>52,158,326</b>	<b>794,981</b>	<b>482,853</b>	<b>15,696,750</b>	<b>86,295,419</b>
<b>Net book value as at 31 December 2012</b>	<b>28,382,363</b>	<b>58,288,319</b>	<b>760,953</b>	<b>790,021</b>	<b>9,803,525</b>	<b>98,025,181</b>

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

As at 31 December 2012 and 2011, the net book value of the Group's and Company's property, plant and equipment acquired under finance lease was as follows:

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

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2012 amounts to LTL 22,849 thousand and LTL 11,974 thousand, respectively (LTL 21,765 thousand and LTL 13,766 thousand in the year 2011, respectively). Amounts of LTL 488 thousand and LTL 275 thousand for the year 2012 (LTL 421 thousand and LTL 182 thousand for the year 2011, respectively) have been included into general and administrative expenses in the Group's and the Company's statement of comprehensive income, respectively. LTL 296 thousand and LTL 113 thousand for the year 2012 (LTL 262 thousand and LTL 148 thousand in 2011) have been included into selling and distribution expenses in the Group's and Company's statement of comprehensive income, respectively. The remaining depreciation expenses of property, plant and equipment have been included into the cost of sales.

As at 31 December 2012, the part of the Group's and the Company's property, plant and equipment with a net book value of LTL 96,630 thousand and LTL 38,706 thousand, respectively (31 December 2011 – LTL 68,466 thousand and LTL 17,118 thousand, respectively) is pledged as a security for repayment of the loans granted by banks (Note 13).

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 26,996 thousand and LTL 19,285 thousand, respectively, were fully depreciated as at 31 December 2012 (LTL 23,670 thousand and LTL 22,519 thousand as at 31 December 2011, respectively), but were still in active use.

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

<b>Group</b>	<b>2012</b>			<b>2011</b>		
	<b>Carrying amount</b>	<b>Total estimated costs of the project</b>	<b>Estimated date of completion</b>	<b>Carrying amount</b>	<b>Total estimated costs of the project</b>	<b>Estimated date of completion</b>
Construction of the building for the corrugated cardboard production, industrial equipment relocation and installation of a new corrugating equipment	-	-	2012	13,051,984	22,000,000	2012
The production line	8,771,330	9,000,000	2013	-	-	-
Other projects	1,962,156	33,142,000	2013–2014	2,984,093	6,350,000	-
<b>TOTAL:</b>	<b>10,733,486</b>	<b>20,431,250</b>	<b>-</b>	<b>16,036,077</b>	<b>28,350,000</b>	<b>-</b>

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

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

**5. Intangible assets**

**Goodwill**

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

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

For the purpose of impairment evaluation, the goodwill as at 31 December 2012 and 2011 was allocated to AB Klaipėdos Kartonas cash generating unit. The recoverable amount of cash generating unit as at 31 December 2012 and 2011 was determined based on the value in use calculation using cash flow projections based on the five-year financial forecasts prepared by the management. Significant assumptions used for the assessment of the value in use in 2012 and 2011 are described further.

The forecasted revenues were estimated based on the management assumptions as at 31 December 2012 and 2011 assuming that the growth in revenue will be in line with the estimated inflation rate. The costs were projected based on the actual cost level taking into account estimated inflation. Cash flows beyond the five-year period were extrapolated using 1% growth rate that reflects the best estimate of the management based on the current situation in the respective industry. The discount rate used by the management was estimated for cash generating unit as a weighted average cost of capital for that particular cash generating unit and is equal to 10% (pre-tax) for cash generating units located in Lithuania. The main assumptions applied in goodwill impairment evaluation were the same in 2012 and 2011.

The assessment of the recoverable amount of the CGU as at 31 December 2012 and 2011 resulted in no impairment of goodwill.

With regard to the assessment of the recoverable amount of the above mentioned cash generating unit as at 31 December 2012 and 2011, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

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**5 Intangible assets (cont'd)**

**Other intangible assets**

<b>Group</b>	<b>Land lease right</b>	<b>Licenses, patents</b>	<b>Software</b>	<b>Other assets and prepayments</b>	<b>TOTAL:</b>
<b>Cost:</b>					
Balance as at 31 December 2010	2,400,000	56,238	904,809	58,793	3,419,840
Additions	-	-	277,681	1,741,578	2,019,259
Disposals, write-offs	-	-	(8,776)	-	(8,776)
Transfer from property, plant and equipment	-	-	22,564	-	22,564
Reclassifications	-	4,550	33,098	(37,648)	-
Effect of foreign currency translation	-	-	143	-	143
Balance as at 31 December 2011	2,400,000	60,788	1,229,519	1,762,723	5,453,030
Additions	-	30,621	349,578	1,397,389	2,077,588
Disposals, write-offs	-	-	-	-	-
Reclassifications	-	-	8,819	(8,819)	-
Effect of foreign currency translation	-	-	590	-	590
Balance as at 31 December 2012	2,400,000	91,409	1,888,506	3,151,293	7,531,208
<b>Accumulated amortisation:</b>					
Balance as at 31 December 2010	195,555	56,218	750,070	8,728	1,010,571
Amortisation	26,667	-	112,588	3,723	142,978
Disposals, write-offs	-	-	(8,775)	-	(8,775)
Reclassifications	-	4,549	(4,549)	-	-
Balance as at 31 December 2011	222,222	60,767	849,334	12,451	1,144,774
Amortisation	26,666	3,368	169,307	514,586	713,927
Disposals, write-offs	-	-	-	-	-
Reclassifications	-	-	-	-	-
Balance as at 31 December 2012	248,888	64,135	1,019,236	527,038	1,859,297
<b>Net book value as at 31 December 2011</b>	<b>2,177,778</b>	<b>21</b>	<b>380,185</b>	<b>1,750,272</b>	<b>4,308,256</b>
<b>Net book value as at 31 December 2012</b>	<b>2,151,112</b>	<b>27,274</b>	<b>869,270</b>	<b>2,624,255</b>	<b>5,671,911</b>

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**5 Intangible assets (cont'd)**

<b>Company</b>	<b>Licenses, patents</b>	<b>Software</b>	<b>Other assets and prepayments</b>	<b>TOTAL:</b>
<b>Cost:</b>				
Balance as at 31 December 2010	56,238	803,309	58,793	918,340
Additions	-	166,567	1,741,578	1,908,145
Disposals, write-offs	-	(8,776)	-	(8,776)
Transfer to subsidiary (Note 1)	-	-	(1,729,992)	(1,729,992)
Reclassifications	4,550	33,098	(37,648)	-
Balance as at 31 December 2011	60,788	994,198	32,731	1,087,717
Additions	30,621	594,941	637,056	1,262,618
Disposals, write-offs	-	-	-	-
Reclassifications	-	8,819	(8,819)	-
Balance as at 31 December 2012	91,409	1,597,958	660,968	2,350,335
<b>Accumulated amortisation:</b>				
Balance as at 31 December 2010	56,218	724,182	8,727	789,127
Amortisation	-	84,992	3,724	88,716
Disposals, write-offs	-	(8,775)	-	(8,775)
Reclassifications	4,549	(4,549)	-	-
Balance as at 31 December 2011	60,767	795,850	12,451	869,068
Amortisation	3,368	86,422	78,987	168,777
Disposals, write-offs	-	-	-	-
Reclassifications	-	-	-	-
Balance as at 31 December 2012	64,135	882,272	91,438	1,037,845
<b>Net book value as at 31 December 2011</b>	<b>21</b>	<b>198,348</b>	<b>20,280</b>	<b>218,649</b>
<b>Net book value as at 31 December 2012</b>	<b>27,274</b>	<b>715,686</b>	<b>569,530</b>	<b>1,312,490</b>

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

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 447 thousand and LTL 325 thousand, respectively as at 31 December 2012 was fully amortised (LTL 447 thousand and LTL 325 thousand as at 31 December 2011, respectively) but was still in use.

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

## **6. Investment property**

### **Group**

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

### **Company**

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

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

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

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



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**7. Inventories**

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

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

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

**8. Accounts receivable**

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

Change in allowance for doubtful trade receivables for the year 2012 and 2011 has been included into general and administrative expenses.

Trade receivables are non-interest bearing and are generally collectible on 15–40 days terms. The carrying amount of the Group's and the Company's trade and other receivables approximates their fair value. For further analysis of credit risk please refer to Note 3. Information on receivables from related parties is presented under Note 26. As at 31 December 2012 and 2011 Group's and the Company's trade receivables were pledged to banks as a collateral for the loans received (Note 13).

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**8. Accounts receivable (cont'd)**

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

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

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

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

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

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

**9. Cash and cash equivalents**

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

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

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**10. Share capital and reserves**

**Share capital**

The share capital of the Company was LTL 60,000 thousand as at 31 December 2012 and as at 31 December 2011. It is divided into 60,000 thousand ordinary registered shares with the nominal value of LTL 1 each.

All shares of the Company are fully paid. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no restrictions of share rights or special control rights for the shareholders set in the articles of association of the Company. No shares of the Company are held by itself or its subsidiaries. No convertible securities, exchangeable securities or securities with warrants are outstanding; likewise, there are no outstanding acquisition rights or undertakings to increase share capital as at 31 December 2012 and 2011.

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

	<b>2012</b>		<b>2011</b>	
	<b>Number of shares</b>	<b>Proportion of ownership, %</b>	<b>Number of shares</b>	<b>Proportion of ownership, %</b>
Lithuanian legal entities	29,813,275	49.69	29,839,973	49.73
Lithuanian individuals	22,147,541	36.91	21,827,685	36.38
Foreign legal entities	7,755,490	12.93	8,124,108	13.54
Foreign individuals	283,694	0.47	208,234	0.35
<b>TOTAL:</b>	<b>60,000,000</b>	<b>100</b>	<b>60,000,000</b>	<b>100</b>

	<b>Number of shares</b>	<b>Proportion of ownership, %</b>	<b>Number of shares</b>	<b>Proportion of ownership, %</b>
UAB Ginvildos investicija	29,272,228	48.79	29,272,228	48.79
Rosemount Holdings LLC	5,639,967	9.40	5,639,967	9.40
Mišeikienė Irena Ona	8,731,686	14.55	8,731,686	14.55
<b>TOTAL:</b>	<b>43,643,881</b>	<b>72.74</b>	<b>43,643,881</b>	<b>72.74</b>

## **10. Share capital and reserves (cont'd)**

### **Reserves**

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

The foreign currency translation reserve is used for translation differences arising on consolidation of financial statements of foreign subsidiary (Note 2.5).

## **11. Capital management**

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2012 and 2011.

The Group and the Company are obliged to upkeep its equity at not less than 50% of its share capital (comprised of share capital and share surplus), as imposed by the Law on Companies of the Republic of Lithuania. There were no other externally imposed capital requirements on the Group and the Company. As at 31 December 2012 and 2011 the Company was not in breach of the above mentioned requirement.

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

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

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

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**12. Grants and subsidies**

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

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

The grants mainly consist of the funds received from the EU for the purpose of construction of structures, acquisition of machinery and equipment (non-current assets). The Company in 2010 has started construction of bio-fuel boiler house, for which grants from EU funds were received in 2010 and 2011. In 2012 the Company received a part of grant for working conditions – micro-climate improvement project. According to the project conditions the rest part of the grant amounting to LTL 131 thousand will be received in 2013.

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

**13. Borrowings**

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

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

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

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

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

### **13. Borrowings (cont'd)**

#### Compliance with loan covenants

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

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

As at 31 December 2012 the Company and the Group complied with all the mentioned debt covenants.

#### Terms and debt repayment schedule

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

For analysis of liquidity risk please refer to Note 3.

#### Pledged assets

For the loans from banks the Group and the Company have pledged property, plant and equipment (Note 4), intangible assets (Note 5), inventories (Note 7), trade accounts receivable (Note 8), bank accounts (Note 9), share of stock of AB Klaipėdos Kartonas held by the Group and UAB AGR Prekyba shares (Note 1).

The following interest rate bases are set for the borrowings as at 31 December 2012:

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

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**13. Borrowings (cont'd)**

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

The following interest rates are set for the borrowings as at 31 December 2011:

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

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

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**13. Borrowings (cont'd)**

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

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

**14. Financial lease obligations**

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

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

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

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Within one year	3,336,662	3,900,723	2,832,695	3,030,382
From one to five years	3,274,114	4,177,003	2,942,712	3,738,146
<b>Total financial lease obligations</b>	<b>6,610,776</b>	<b>8,077,726</b>	<b>5,775,407</b>	<b>6,768,528</b>
Interest	(171,898)	(273,231)	(147,723)	(206,061)
<b>Present value of financial lease obligations</b>	<b>6,438,878</b>	<b>7,804,495</b>	<b>5,627,684</b>	<b>6,562,467</b>
Financial lease obligations are accounted as:				
- current	3,254,648	3,752,086	2,762,658	2,936,417
- non-current	3,184,230	4,052,409	2,865,026	3,626,050

The fair value of the Group's and the Company's lease liabilities approximate their carrying amount. The Group's and the Company's obligations under finance leases are secured by the lessor's charge over the leased assets (Note 4).



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**15. Non-current employee benefits**

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

	<b>Group</b>	<b>Company</b>
As at 31 December 2010	730,067	370,053
Transfer to subsidiary (Note 1)	-	(199,105)
Change during the year 2011	59,296	(853)
As at 31 December 2011	789,363	170,095
Change during the year 2012	(140,755)	(746)
As at 31 December 2012	648,608	169,349

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

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

**16. Trade and other payables**

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

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

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

## 17. Segment information

### Operating segments

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

#### Group 2012

	<b>Paper and paper products</b>	<b>Hardboard and wood products</b>	<b>Raw material for corrugated cardboard and related production</b>	<b>Unallocated</b>	<b>TOTAL:</b>
Sales	71,481,074	75,904,591	141,679,995	450,906	<b>289,516,566</b>
Cost of sales	(54,515,940)	(63,198,880)	(125,891,123)	(364,083)	<b>(243,970,026)</b>
<b>Gross profit</b>	<b>16,965,134</b>	<b>12,705,711</b>	<b>15,788,872</b>	<b>86,823</b>	<b>45,546,40</b>
Depreciation and amortisation	6,787,025	4,358,049	7,862,588	4,345,756	<b>23,353,418</b>
Segment property, plant and equipment, investment property and intangible assets	48,891,243	27,990,824	80,360,367	31,689,323	<b>188,931,757</b>
Goodwill	-	-	10,362,101	-	<b>10,362,101</b>
Segment capital expenditure	14,926,127	1,782,696	13,874,431	452,234	<b>31,035,488</b>

#### Group 2011

	<b>Paper and paper products</b>	<b>Hardboard and wood products</b>	<b>Raw material for corrugated cardboard and related production</b>	<b>Unallocated</b>	<b>TOTAL:</b>
Sales	77,937,849	75,353,191	147,971,272	6,415,349	<b>307,677,661</b>
Cost of sales	(66,735,178)	(64,637,960)	(123,601,509)	(6,092,999)	<b>(261,067,646)</b>
<b>Gross profit</b>	<b>11,202,671</b>	<b>10,715,231</b>	<b>24,369,763</b>	<b>322,350</b>	<b>46,610,015</b>
Depreciation and amortisation	6,041,858	5,803,923	7,110,707	3,178,172	<b>22,134,660</b>
Segment property, plant and equipment, investment property and intangible assets	38,097,832	30,604,683	74,409,242	38,497,979	<b>181,609,736</b>
Goodwill	-	-	10,362,101	-	<b>10,362,101</b>
Segment capital expenditure	4,127,459	4,953,891	19,562,038	2,401,464	<b>31,044,852</b>

<sup>1</sup> Unallocated sales include sales not attributable to either of the listed segments, namely sales of heating energy (steam) (as the Company has its own steam house) and other utilities services (in total for 2012 – LTL 451 thousand and for 2011 – LTL 6,415 thousand).

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

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

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**17. Segment information (cont'd)**

**Company 2012**

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

**Company 2011**

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

<sup>1</sup> Unallocated sales include sales not attributable to either of the listed segments, namely sales of heating energy (steam) (as the Company has its own steam house) and other utilities services (in total for 2012 – LTL 21,295 thousand and for 2011 – LTL 6,415 thousand).

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

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

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

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**17. Segment information (cont'd)**

**Split by geographical areas**

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

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

**Property, plant and equipment and investment property location:**

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

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**18. Other operating income**

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

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

**19. Other operating expenses**

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

**20. Selling and distribution expenses**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Fuel and transportation services	14,692,056	12,852,390	2,886,171	6,308,130
Salaries and related expenses	3,312,382	2,980,941	1,882,375	2,144,026
Mediation, marketing, promotion and representation	2,233,303	1,557,708	1,985,171	1,494,690
Repairs and maintenance	401,701	473,633	283,301	309,134
Depreciation and amortisation	295,764	261,809	112,940	148,481
Other sales expenses	645,492	668,681	249,265	580,358
<b>TOTAL:</b>	<b>21,580,698</b>	<b>18,795,162</b>	<b>7,399,223</b>	<b>10,984,819</b>
<i>Selling and distribution expenses related to:</i>				
<i>continuing operations</i>			7,399,223	6,527,456
<i>discontinued operations</i>			-	4,457,363

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**21. General and administrative expenses**

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

**22. Finance income and expenses, net**

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

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

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**23. Income tax**

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

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

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

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

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**23. Income tax (cont'd)**

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

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

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



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**23. Income tax (cont'd)**

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

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

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

**24. Basic and diluted earnings per share (LTL)**

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

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

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**25. Dividends per share**

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

\* The year when the dividends are approved.

\*\* At the date when dividends are approved.

**26. Related party transactions**

The related parties of the Group and the Company and considered the following:

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

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

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

Related party receivables and payables are expected to be settled in cash or set-off against payables / receivables to / from a respective related party.

**Group 2012**

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

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**26. Related party transactions (cont'd)**

**Group 2011**

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

**Company 2012**

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

**Company 2011**

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

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

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

Purchases from AB Klaipėdos Kartonas include purchase of test liner and fluting used as raw materials in the production. Accounts receivable and accounts payable to the related parties bear the same terms and conditions as receivables and payables to external customers and suppliers.

## 26 Related party transactions (cont'd)

### Remuneration of the management

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Management remuneration	2,191,983	1,901,055	931,135	1,144,661
Average number of managers	17	15	6	8

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

## 27. Off-balance sheet items

### **Information on emission allowances**

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

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

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

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

**28. Subsequent events**

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

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

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*FOR THE YEAR 2012*

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## 1. REPORTING PERIOD FOR WHICH THIS INFORMATION HAS BEEN PREPARED

The statements have been prepared for the year 2012.

## 2. AUDIT INFORMATION

The Consolidated Annual Report of Grigiskės AB for the year 2012 has been prepared in accordance with the audited consolidated financial statements. The conformity of financial information presented in the Consolidated Annual Report with the consolidated financial statements for the year 2012 has been examined by the independent auditor.

## 3. GROUP COMPANIES AND THEIR CONTACT DETAILS

Grigiskės AB (hereinafter referred to as the Company or the Issuer) has eight subsidiaries: Klaipėdos kartonas AB, Baltwood UAB; Ekotara UAB; Naujieji Verkiai UAB, Mena pak PAT, AGR Prekyba UAB, Klaipėda recycling UAB and Grigiskių energija UAB.

Status	Issuer	Subsidiary	Subsidiary
Name	Grigiskės AB	Klaipėdos kartonas AB	Baltwood UAB
Company's ID No.	110012450	141011268	126199731
Authorised capital	60.000.000 LTL	41.001.895 LTL	32.537.000 LTL
Shares directly or indirectly controlled by Grigiskės AB	Company has not acquired any shares of itself	95,78%	100%
Address	Vilniaus st. 10, Grigiskės, Vilnius	Nemuno st. 2, Klaipėda	Vilniaus st. 10, Grigiskės, Vilnius
Phone	+370 5 243 58 01	+370 46 39 56 01	+370 5 243 59 00
Fax	+370 5 243 58 02	+370 46 39 56 00	+370 5 243 59 10
E-mail	<a href="mailto:info@grigiskės.lt">info@grigiskės.lt</a>	<a href="mailto:info@kartonas.lt">info@kartonas.lt</a>	<a href="mailto:info@baltwood.lt">info@baltwood.lt</a>
Internet address	<a href="http://www.grigiskės.lt">www.grigiskės.lt</a>	<a href="http://www.kartonas.lt">www.kartonas.lt</a>	<a href="http://www.baltwood.lt">www.baltwood.lt</a>
Legal form	Public Limited Liability Company	Public Limited Liability Company	Private Limited Liability Company
Date of registration	23 May 1991	22 September 1994	10 April 2003
Administrator of the register	State Enterprise Centre of Registers	State Enterprise Centre of Registers	State Enterprise Centre of Registers
Status	Subsidiary	Subsidiary	Subsidiary
Name	Ekotara UAB	Naujieji Verkiai UAB	Mena pak PAT
Company's ID No.	302329061	300015674	00383260
Authorised capital	10.000 LTL	100.000 LTL	4.012.000 UAH
Shares directly or indirectly controlled by Grigiskės AB	100%	100%	93,79%
Address	Vilniaus st. 10, Grigiskės, Vilnius	Popieriaus st. 15, Vilnius	Koshevovo st. 6, Chernihiv region, Mena, Ukraine
Phone	+370 5 243 58 01	+370 5 243 59 33	+380 4644 21341
Fax	+370 5 243 58 02	+370 5 243 58 02	+380 4644 21084
E-mail	<a href="mailto:info@grigiskės.lt">info@grigiskės.lt</a>	<a href="mailto:info@grigiskės.lt">info@grigiskės.lt</a>	<a href="mailto:menapack@ukr.net">menapack@ukr.net</a>
Internet address	<a href="http://www.ekotara.lt">www.ekotara.lt</a>	-	<a href="http://www.menapack.com.ua">www.menapack.com.ua</a>
Legal form	Private Limited Liability Company	Private Limited Liability Company	Public Limited Liability Company
Date of registration	10 April 2009	6 April 2004	30 December 1993
Administrator of the register	State Enterprise Centre of Registers	State Enterprise Centre of Registers	Chernihiv region, Mena dist. Public administration

Status	Subsidiary	Subsidiary	Subsidiary
Name	AGR Prekyba UAB	Klaipėda recycling UAB	Grigiškių energija UAB
Company's ID No.	302416687	302529158	302674488
Authorised capital	12.810.000 LTL	3.000.000 Lt	10.000 Lt
Shares directly or indirectly controlled by Grigiškės AB	100%	94,18%	100%
Address	Vilniaus st. 10, Grigiškės, Vilnius	Nemuno st. 2, Klaipėda	Vilniaus st. 14, Grigiškės, Vilnius
Phone	+370 5 243 5933	+370 46 395 601	+370 5 243 5933
Fax	+370 5 243 58 02	+370 46 395 600	+370 5 243 58 02
E-mail	<a href="mailto:vigmantas.kazukauskas@grigiskes.lt">vigmantas.kazukauskas@grigiskes.lt</a>	<a href="mailto:info@kartonas.lt">info@kartonas.lt</a>	<a href="mailto:vigmantas.kazukauskas@grigiskes.lt">vigmantas.kazukauskas@grigiskes.lt</a>
Internet address	-	-	-
Legal form	Private Limited Liability Company	Private Limited Liability Company	Private Limited Liability Company
Date of registration	10 July 2009	16 July 2010	7 October 2011
Administrator of the register	State Enterprise Centre of Registers	State Enterprise Centre of Registers	State Enterprise Centre of Registers

#### 4. NATURE OF CORE ACTIVITIES OF THE GROUP COMPANIES

Core business activities of Grigiškės AB are as follows: manufacturing of toilet paper, paper towels and paper napkins, corrugated board, products from corrugated board.

Core business activities of Klaipėdos kartonas AB are as follows: manufacturing of the raw materials for production of corrugated board – Testliner and Fluting. Beside the main activity, Klaipėdos kartonas AB also produces paper honeycomb used in furniture industry.

Core business activities of Baltwood UAB are as follows: wood processing, manufacturing of container wood, fuel granules, bonded furniture panel, hardboards and coloured hardboards of wood fibre (see material event announced on 02.01.2012).

Core business activities of Mena pak PAT (in Ukrainian – публічне акціонерне товариство „МЕНА ПАК“) are as follows: manufacturing of corrugated board, packaging from corrugated board.

Core business activities of Ekotara UAB are as follows: manufacturing of corrugated board, packaging from corrugated board. The company has not been operating in year 2012.

Core business activities of Naujieji Verkiai UAB are as follows: building and development of real estate.

Core business activity of Grigiškių energija UAB is planned to be a business of heat production and sale. The company has not been operating in year 2012.

Core business activity of Klaipėda recycling UAB is waste-paper procurement.

Core business activities of AGR Prekyba UAB are as follows: investment activities and corporate governance.

## 5. CONTRACTS WITH INTERMEDIARIES OF PUBLIC TRADING IN SECURITIES AND CREDIT INSTITUTIONS

The Company has signed a contract with Finasta AB (financial brokerage company) (Maironio st. 11, Vilnius, tel. (8~5) 203 2233, fax: (8~5) 203 2244, [info@finasta.lt](mailto:info@finasta.lt)) on the handling of securities issued by the Company and payment of dividend to the shareholders for 2004 and subsequent financial years.

The Company has signed a contract with Orion Securities UAB (financial brokerage company) (A.Tumėno st. 4, Vilnius, tel. (8~5) 231 3833, fax: (8~5) 231 3840, [info@orion.lt](mailto:info@orion.lt)) for making the market for the shares of Grigiškės AB.

## 6. AUTHORISED CAPITAL OF THE ISSUER

### 6.1. The authorized capital registered at the Register of Legal Persons

#### 6.1.1. Table. Structure of the authorized capital

Type of shares	Number of shares.	Par value, LTL	Total par value, LTL	Interest in the authorised capital, %
Ordinary registered shares	60.000.000	1	60.000.000	100,00

All shares of the Issuer are fully paid up.

### 6.2. Information on the prospective increase of the authorized capital by converting issued debt securities or derivative securities into shares

The issuer has not issued any debt securities or derivative securities to be converted into shares.

### 6.3. Rights and obligations conferred by the shares

The shareholders have the following property and non-property rights:

- 1) to receive a part of the Company's profit - dividend;
- 2) to receive the Company's funds when the authorized capital of the Company is being reduced with a view to paying out the Company's funds to the shareholders;
- 3) to receive shares without payment if the authorized capital is increased out of the Company funds, except in cases specified in the Law on Companies of the Republic of Lithuania;
- 4) to have the pre-emption right in acquiring shares or convertible debentures issued by the Company, except in cases when the general meeting decides to withdraw the pre-emption right in acquiring the Company's newly issued shares or convertible debentures for all the shareholders in the manner prescribed by Law on Companies of the Republic of Lithuania;
- 5) to lend to the Company in the manner prescribed by laws of the Republic of Lithuania; however, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the company borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the lender has his place of residence or business, which was in effect on the day of conclusion of the loan agreement. In such a case the Company and shareholders shall be prohibited from negotiating a higher interest rate;
- 6) to receive a part of assets of the Company in liquidation;
- 7) to bequeath all or a part of the shares to the ownership of the other people;
- 8) to transfer all or part of the shares to ownership of other people;
- 9) to attend the general meetings of shareholders;

- 10) to vote at general meetings of the shareholders according to voting rights carried by their shares (each fully paid share of the nominal value of 1 (one) LTL gives its holder one vote at the general meeting);
- 11) to receive information on the Company according to the procedure laid down in the laws of the Republic of Lithuania and the Articles of Association of the Company;
- 12) to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the Company manager and Board members of their obligations prescribed by the Law on Companies and other laws of the Republic of Lithuania and the Articles of Association of the Company as well as in other cases laid down by laws of the Republic of Lithuania;
- 13) to authorize a person to vote on his/her behalf at the general meeting of the shareholders;
- 14) to exercise other property and non-property rights provided by laws of the Republic of Lithuania.

## 7. SHAREHOLDERS

### 7.1. Number of shareholders of the Company

As at 31 December 2012, there were 2.573 shareholders of Grigiskės AB.

### 7.2. Main shareholders owning in excess of 5 per cent of the authorised capital of the Issuer

7.2. table. Shareholders owning more than 5 per cent of the authorised capital of the Issuer as at 31 December 2012.

Shareholder's name (company's name, type, headquarters address, corporate ID number)	31 December 2012			31 December 2011		
	Number of ordinary registered shares owned by the shareholder	Interest in the authorised capital, %	Votes granted by shares held by the right of ownership, %	Number of ordinary registered shares owned by the shareholder	Interest in the authorised capital, %	Votes granted by shares held by the right of ownership, %
UAB „GINVILDOS INVESTICIJA“ Turniškių st. 10a-2, Vilnius, 125436533	29.272.228	48,79	48,79	29.272.228	48,79	48,79
IRENA ONA MIŠEIKIENĖ	8.731.686	14,55	14,55	8.731.686	14,55	14,55
ROSEMOUNT HOLDING LLC 3533 Fairview Industrial Drive SE, Salem, OR 97302, United States of America	5.639.967	9,40	9,40	5.639.967	9,40	9,40

### 7.3. Shareholders holding special controlling rights

There are no shareholders holding special controlling rights.

### 7.4. Restrictions of the voting rights

There are no restrictions of the voting rights.



### 7.5. Agreements between/among the shareholders

The Issuer is not aware of any agreements between/among the shareholders likely to result in the restriction of securities transfer and (or) voting rights.

## 8. INFORMATION ON TRADING WITH ISSUER'S SECURITIES ON THE REGULATED MARKETS

Registered ordinary shares of Grigiškės AB are listed in the main list of NASDAQ OMX VILNIUS, AB (ticker – GRG1L).

### 8.1. Key characteristics of the shares of the Company

8.1. table. Key characteristics of the shares of the Company

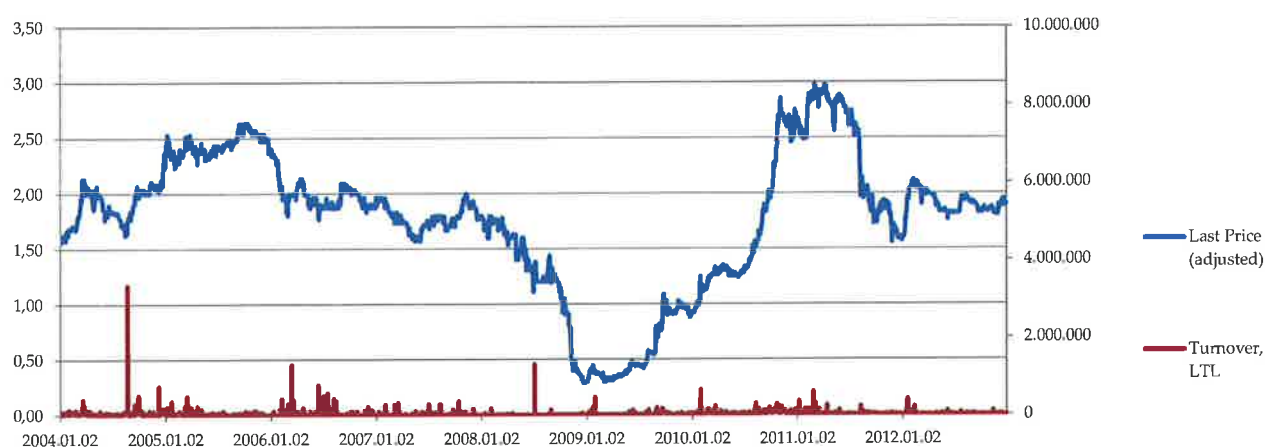
Type of shares	Securities ISIN code	Number of shares	Par value, LTL	Total par value, LTL
Registered ordinary shares	LT0000102030	60.000.000	1	60.000.000

### 8.2. Share trading information

8.2. table. Share trading information

Reported period	Price, LTL				Turnover, LTL			Total turnover	
	Max.	Min.	Last session	Average	Max.	Min.	Last session	Units	LTL
2008, I Q	1,798	1,598	1,652	2,580	183.621	0	0	167.207	431.407
2008, II Q	1,632	1,110	1,110	1,809	45.478	0	5.910	96.273	174.179
2008, III Q	1,440	1,110	1,140	1,283	1.311.782	0	4.812	1.325.360	1.700.485
2008, IV Q	1,140	0,290	0,300	0,427	42.459	0	6.593	884.565	378.011
<b>2008</b>	<b>1,798</b>	<b>0,290</b>	<b>0,300</b>	<b>1,085</b>	<b>1.311.782</b>	<b>0</b>	<b>6.593</b>	<b>2.473.405</b>	<b>2.684.081</b>
2009, I Q	0,450	0,300	0,310	0,392	458.897	0	0	4.465.664	1.751.743
2009, II Q	0,490	0,330	0,450	0,430	122.162	0	20.205	2.033.965	873.993
2009, III Q	1,090	0,420	1,020	0,698	185.607	0	22.208	2.889.167	2.017.305
2009, IV Q	1,030	0,880	0,930	0,947	62.921	364	5.460	863.978	817.846
<b>2009</b>	<b>1,090</b>	<b>0,300</b>	<b>0,930</b>	<b>0,533</b>	<b>458.897</b>	<b>0</b>	<b>5.460</b>	<b>10.252.774</b>	<b>5.460.887</b>
2010, I Q	1,330	0,920	1,270	1,200	643.163	0	14.597	3.109.465	3.731.893
2010, II Q	1,350	1,240	1,340	1,297	98.746	0	25.194	1.017.209	1.319.328
2010, III Q	2,020	1,320	1,950	1,686	299.041	0	38.734	1.817.780	3.065.303
2010, IV Q	2,850	2,000	2,676	2,512	293.473	0	7.054	1.994.606	5.010.498
<b>2010</b>	<b>2,850</b>	<b>0,920</b>	<b>2,676</b>	<b>1,653</b>	<b>643.163</b>	<b>0</b>	<b>7.054</b>	<b>7.939.060</b>	<b>13.127.022</b>
2011, I Q	2,997	2,486	2,883	2,746	593.054	0	22.989	1.221.311	3.354.105
2011, II Q	2,987	2,555	2,624	2,822	251.419	360	8.948	463.059	1.306.703
2011, III Q	2,745	1,726	1,823	2,076	223.677	0	9.137	753.319	1.564.106
2011, IV Q	1,937	1,554	1,595	1,746	41.693	0	4.142	328.401	573.445
<b>2011</b>	<b>2,997</b>	<b>1,554</b>	<b>1,595</b>	<b>2,458</b>	<b>593.054</b>	<b>0</b>	<b>4.142</b>	<b>2.766.090</b>	<b>6.798.360</b>
2012, I Q	2,120	1,595	1,989	1,950	417.134	0	2.995	1.142.755	2.228.267
2012, II Q	1,999	1,761	1,816	1,854	100.495	0	2.177	372.658	691.007
2012, III Q	1,975	1,816	1,844	1,902	64.688	0	2.404	329.661	626.890
2012, IV Q	1,951	1,802	1,899	1,861	107.318	0	6.812	294.869	548.774
<b>2012</b>	<b>2,120</b>	<b>1,595</b>	<b>1,899</b>	<b>1,914</b>	<b>417.134</b>	<b>0</b>	<b>6.812</b>	<b>2.139.943</b>	<b>4.094.938</b>

## 8.2. figure. Share price and turnover 01.01.2004 – 31.12.2012.



## 8.3. Capitalisation of the Company's shares

8.3. table. Capitalisation of the Company's shares

Last session date	Capitalisation, LTL
<b>28.12.2007</b>	<b>107.880.000</b>
31.03.2008	99.120.000
30.06.2008	66.600.000
30.09.2008	68.400.000
<b>31.12.2008</b>	<b>18.000.000</b>
31.03.2009	18.600.000
30.06.2009	27.000.000
30.09.2009	61.200.000
<b>31.12.2009</b>	<b>55.800.000</b>
31.03.2010	76.200.000
30.06.2010	80.400.000
30.09.2010	117.000.000
<b>31.12.2010</b>	<b>160.560.000</b>
31.03.2011	172.980.000
30.06.2011	157.440.000
30.09.2011	109.380.000
<b>31.12.2011</b>	<b>95.700.000</b>
31.03.2012	119.340.000
30.06.2012	108.960.000
30.09.2012	110.640.000
<b>31.12.2012</b>	<b>113.940.000</b>

## 8.4. Issuer's share trading on other stock exchanges and regulated markets

The Company's shares are not traded on other stock exchanges and regulated markets.

## 8.5. Own shares buy out

The Company has not bought out own shares.

## 8.6. Restrictions on shares transfer.

There are no restrictions on shares transfer.

### 8.7. Official takeover bid

Official takeover bid for the Company's shares has not been declared. The Company also has not declared official takeover bid for shares of other companies.

## 9. EMPLOYEES

Over the year 2012 the number of the Group employees fluctuated naturally.

### 9.1. table. Number of employees of the Group

	31.12.2012	31.12.2011
Number of employees	890	997

### 9.2. table. Number of employees of the Company

	31.12.2012	31.12.2011
Number of employees	291	283

### 9.3. table. Average number of employees, salary and grouping of employees by education of the Group during the twelve months of 2012.

Employees	Average salary	Employees by education			
		University	College	Secondary	Basic
Workpeople	2.018	43	186	416	35
Managers	6.039	70	12	2	-
Specialists	3.117	119	26	6	-
<b>Total</b>	<b>2.669</b>	<b>232</b>	<b>224</b>	<b>424</b>	<b>35</b>

### 9.4. table. Average number of employees, salary and grouping of employees by education of the Group in 2011.

Employees	Average salary	Employees by education			
		University	College	Secondary	Basic
Workpeople	1.952	47	177	471	75
Managers	5.775	77	16	1	-
Specialists	2.885	103	26	4	-
<b>Total</b>	<b>2.428</b>	<b>227</b>	<b>219</b>	<b>476</b>	<b>75</b>

### 9.5. table. Average number of employees, salary and grouping of employees by education of the Company during the twelve months of 2012.

Employees	Average salary	Employees by education			
		University	College	Secondary	Basic
Workpeople	2.554	16	46	108	9
Managers	8.118	21	5	0	-
Specialists	3.903	55	11	5	-
<b>Total</b>	<b>3.428</b>	<b>92</b>	<b>62</b>	<b>112</b>	<b>9</b>

9.6. table. Average number of employees, salary and grouping of employees by education of the Company in 2011.

Employees	Average salary	Employees by education			
		University	College	Secondary	Basic
Workpeople	2.444	12	56	114	11
Managers	6.032	35	4	-	-
Specialists	3.179	39	9	3	-
<b>Total</b>	<b>3.014</b>	<b>86</b>	<b>69</b>	<b>117</b>	<b>11</b>

## 10. AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE ISSUER

The Articles of Association of the Issuer are amended in the procedure prescribed by legal acts of the Republic of Lithuania.

## 11. SIGNIFICANT AGREEMENTS

The issuer has not made any significant agreements in which one of parties would be the Company and which will be effective, will change or break if Company's control changes.

The issuer and its managing bodies have not made any agreements which foreseen compensations for resigned persons from managing bodies and employees or they be laid off without any reason or their job finishes if Grigiškės AB control changes.

## 12. INFORMATION ON THE MANAGING BODIES OF THE ISSUER

The Company has the general meeting of shareholders, the sole-person managing body – the head of the Company (director general), the collegial managing body – supervisory council and the collegial managing body – the board.

The supervisory council is comprised of 5 members. The members to the supervisory council are elected by the general meeting of shareholders for a period of 4 years. The supervisory council elects and revokes the members of the board. The board of the Company consists of 5 members.

The board of the Company elects and revokes the head of the Company, fixes his salary, approves his job description, awards bonuses to and imposes penalties on the head of the Company.

### 12.1. Members of the managing bodies

12.1. table. Members of the supervisory council, board and administration, and their capital share and votes

Full names	Positions	Capital share and votes, %
SUPERVISORY COUNCIL		
Norimantas Stankevičius	Chairman	-
Algimantas Goberis	Member	-
Romualdas Juškevičius	Member	-
Tautvilas Adamonis	Member	-
Daiva Dukišenė	Member	-
BOARD		
Gintautas Pangonis	Chairman	0,22
Nina Šilerienė	Member	0,07
Vigmantas Kažukauskas	Member	0,33
Normantas Paliokas	Member	-
Vytautas Juška	Member	-



Full names	Positions	Capital share and votes, %
<b>ADMINISTRATION</b>		
Gintautas Pangonis	President	0,22
Nina Šilerienė	Vice President, Finance	0,07
Vigmantas Kažukauskas	Vice President, Business Development	0,33
Vytautas Juška	Vice President, Purchasing & Logistics	-
Robertas Krutikovas	Director General	0,07
Viktoras Tirevičius	Director of Corrugated board Department	0,10

### 12.2. Information of the Chairman of the Board, President and Vice President, Finance

**Gintautas Pangonis** – Chairman of the Board, president. Education – university degree. Profession – multichannel telecommunication engineer. Workplaces during the last 10 years:

Employers	Positions
Grigiskės AB	Director general, chairman of the board
Grigiskės AB	President, chairman of the board

**Nina Šilerienė** – Vice President, Finance. Education – university degree. Profession – economist for accounting, control and analysis of economic activities. Workplaces during the last 10 years:

Employers	Positions
Grigiskės AB	Director of Finance Department, member of the board
Grigiskės AB	Vice president, Finance, member of the board

### 12.3. Information on the participation in the activities of other enterprises, agencies and organisations (name of the enterprise, agency or organisation and position thereat, capital interest and votes in excess of 5 per cent)

12.3. table. Participation of the members of the supervisory council, board and administration in the activities of other enterprises, agencies and organisations

Name	Business participation		Capital interest	
	Name of enterprise, agency and organisation	Positions	Name of enterprise, agency and organisation	Capital share and votes, %
Norimantas Stankevičius	Didma UAB	Project director	Didma UAB	51,00
	Naras UAB	Director	Naras UAB	62,48
			Bakenas, UAB	100,00
			Statybų namai, UAB	62,00
			Technikos namai, UAB	62,00
			Ginvildos investicija UAB	13,00
	Grigiskės AB	Chairman of the supervisory council		
Algimantas Goberis	Grigiskės AB	Member of the supervisory council		
Romualdas Juškevičius	Grigiskės AB	Member of the supervisory council		
Tautvilas Adamonis	Remada UAB	Director General	Remada UAB	100,0
	Grigiskės AB	Member of the supervisory council		

Name	Business participation		Capital interest	
	Name of enterprise, agency and organisation	Positions	Name of enterprise, agency and organisation	Capital share and votes, %
	Remados statyba UAB	Director	Remados statyba UAB	100,0
Daiva Duksienė	Grigiškės AB	Member of the supervisory council		
Gintautas Pangonis			Ginvildos investicija UAB	79,0
	Grigiškės AB	President	Grigiškės AB	0,22
	Grigiškės AB	Chairman of the board		
	Klaipėdos kartonas AB	Chairman of the board		
	Naujieji Verkiai UAB	Chairman of the board		
	Baltwood UAB	Chairman of the board		
	Ekotara UAB	Chairman of the board		
	Grigiškių energija UAB	Chairman of the board		
	Klaipėda recycling UAB	Member of the board		
	Mena pak PAT	Member of the Supervisory council		
Normantas Paliokas	Didma UAB	Head of Vilnius Representative Office		
	Ginvildos investicija UAB	Director		
	Grigiškės AB	Member of the board		
Vigmantas Kažukauskas	Grigiškės AB	Vice president, Business Development	Grigiškės AB	0,33
	Grigiškės AB	Member of the board		
	Klaipėdos kartonas AB	Member of the board		
	Baltwood UAB	Member of the board		
	Naujieji verkiai UAB	Director		
	Naujieji Verkiai UAB	Member of the board		
	Ekotara UAB	Member of the board		
	Grigiškių energija, UAB	Director		
	Grigiškių energija, UAB	Member of the board		
	AGR Prekyba UAB	Director		
Vytautas Juška	Grigiškės AB	Vice president, Purchasing & Logistics		
	Grigiškės AB	Member of the board		

Name	Business participation		Capital interest	
	Name of enterprise, agency and organisation	Positions	Name of enterprise, agency and organisation	Capital share and votes, %
	Baltwood UAB	Member of the board		
	Grigiškių energija UAB	Member of the board		
Nina Šilerienė	Grigiškės AB	Vice President, Finance	Grigiškės AB	0,07
	Grigiškės AB	Member of the board		
	Klaipėdos kartonas AB	Member of the board		
	Naujieji Verkiai UAB	Member of the board		
	Baltwood UAB	Member of the board		
	Ekotara UAB	Member of the board		
	Grigiškių energija UAB	Member of the board		

#### 12.4. Data on the commencement and expiration of the tenure of each managing body

The Supervisory Council of Grigiskės AB was elected on the 26 April 2011 for a 4 years' period (ending in 2015). The Board of the Company was elected on the 26 April 2011 for a 4 years' period (ending in 2015).

#### 12.5. Information about payments and loans to the members of the managing bodies

12.5. Table. Information on the salaries, bonuses and other payments from profit paid by the Issuer within the reported period.

	Salaries LTL	Bonuses LTL	Dividends LTL	Other payments LTL
Totally for all members of the supervisory council	-	24.000	-	-
In average per one member of the supervisory council	-	4.800	-	-
Totally for all members of the board	-	96.000	-	-
In average per one member of the board	-	19.200	-	-
Totally for all members of the administration	931.135	-	8.354	-
In average per one member of the administration	155.189	-	-	-

The members of the Supervisory Council, Board and Administration of the Issuer, have not received salaries, bonuses and other payments during reported period from profit of companies where the share of the Issuer in the authorised capital exceeds 20 per cent.

#### 12.6. Loans, guarantees and warranties granted to the members of the Issuer managing bodies to secure fulfilment of their obligations

None.

### 13. REVIEW OF ACTIVITY OF THE GROUP COMPANIES

#### 13.1. Material events in the Issuer's activities

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

As it was mentioned, the Board of GRIGISKES AB believes that the fact of transferring of the part of activities of GRIGISKES AB will not have significant impact on financial indicators of the Group of GRIGISKES AB.

**January** The GRIGISKES AB Group reached the goals of 2011. According to unaudited data over the twelve months of 2011 the sales turnover of the Group which consists of the production company GRIGISKES AB, Baltwood UAB, Klaipedos kartonas AB, Mena pak PAT and company engaged in the waste paper business of Klaipeda recycling UAB reached LTL 308m (EUR 89.2m) which is by LTL 8m (EUR 2.3m) or 2.7% higher than proclaimed forecasted turnover for 2011.

Over the twelve months of 2011 the turnover of GRIGISKES AB outmeasured LTL 159m. (EUR 64m.) and was by LTL 14m (EUR 4.1m) or 9.7% higher than proclaimed forecasted turnover for 2011.

On January 9, 2012 the Board meeting approved a budget for the year 2012.

It is planned that The Group which consists of companies GRIGISKES AB, Baltwood UAB, Klaipedos kartonas AB, Klaipeda recycling UAB and Mena pak PAT in the year 2012 will reach a turnover of LTL 322m (EUR 93.3m), which is LTL 22m (EUR 6.4m) or 7.3% over the turnover of 2011. The Group's profit before taxes will reach LTL 15m (EUR 4.3m) and will be LTL 3m (EUR 0.9m) or 25% higher than it is expected for the year 2011.

It is also planned that GRIGISKES AB in the year 2012 will reach a turnover of LTL 117m (EUR 33.9m) and will be less by LTL 42m (EUR 12.2m) than not audited sales of the year 2011 are. The company will earn profit before taxes of LTL 4.6m (EUR 1.3m) which will be by LTL 0.2m (EUR 0.1m) less than it is expected for the year 2011.

In planning the activities for the year 2012 among the other factors the Company has evaluated the impact of on December 2, 2011 disclosed and on December 31, 2011 implemented transference of a part of activities (wood fibre board manufacture) to a subsidiary Baltwood UAB. Up to 31.12.2011 GRIGISKES AB had three main operating business units – reportable segments: „Paper and paper products“, „Hardboard and hardboard products“ and also „Corrugated cardboard and related products“ and since the year 2012 company will have two business units – reportable segments: „Paper and paper products“ and „Corrugated cardboard and related products“. Namely the mentioned transference has led to the reduction of forecasted turnover by 26.4 percent and profit before taxes by 4.2 percent for the year 2012 compared to the forecasted results of the year 2011.

These forecasts have not been audited.



- January** On October 6, 2011, GRIGISKES AB and MEDIENOS PLAUSAS AB, the company in bankruptcy, have signed a contract of lease of a part of premises, production and other equipment owned by MEDIENOS PLAUSAS AB, the company in bankruptcy. After a reassessment of the market situation, the rented asset's condition and the necessary level of investments to carry out an activity, GRIGISKES AB unilaterally terminates the lease contract mentioned above from February 1, 2012.
- March** GRIGISKES AB successfully accomplished proactive reliability maintenance project now providing opportunity further to improve the reliability and efficiency of existing production assets. Project implementation started on 18 February 2011 when GRIGISKES AB and SKF Lietuva UAB signed a proactive reliability maintenance service agreement. Within a period of one year professionals of SKF group carried out agreed obligations and delivered World Class maintenance experience to GRIGISKES AB technicians with the unique opportunity for company's rapid improvement. During project implementation an innovative GRIGISKES AB maintenance strategy was developed. The aim of the strategy is influence to potential failures of existing production assets which are critical to safety, environment and economics sense. This system allows plan preventive and diagnostic maintenance tasks in order to reduce cost and improve output. Proactive equipment-reliability-oriented activities keep improving the processes of maintenance of equipment and increase efficiency of existing production equipment. To support the maintenance strategy, GRIGISKES AB also implemented an extensive computerized maintenance management system, which helps to optimise all maintenance activities and processes. Development of key performance indicators system guide to straight identification and prediction of equipment failures with decision making in maintenance areas, production planning and order fulfilment in time. GRIGISKES AB will continue implementing Word Class maintenance in subsidiaries to fulfil the ambition to reach high quality services, flexibility execution of client orders and become an important player in the market.
- March** The Annual General Shareholders Meeting of Grigiskės AB, legal entity code 110012450, registered office: Vilniaus st. 10, Grigiškės, LT-27101, Vilnius (hereinafter - Company), is convened by initiative and the decision of the Board. The Date of the Meeting –25 April, 2012, Wednesday. Time – 11 a.m., place - Vilniaus st. 10, Grigiškės, Vilnius, the first floor of Company's administration building. Registration of shareholders starts at 10.30 a.m., ends at 10.55 a.m. The accounting day of the Annual General Meeting of Shareholders' is 18 April 2012. Shareholders that own Company's shares at the end of the day of 18 April 2012 shall have the right to participate in convened General Meeting. The shareholders' proprietary rights accounting day is 10 May 2012. The right to receive a part of the Company's profit (dividend) shall be held by persons who were shareholders at the close of the tenth working day after adopting the appropriate decision of the General Meeting of Shareholders.

The Board proposed the following agenda for the Annual General Meeting of Shareholders:

1. Consolidated annual report of the Company for the year 2011.
2. Auditor's report for the year 2011.
3. Approval of the set of consolidated annual financial statements and annual financial statements of the Company for the year 2011.
4. The appropriation of the Company's profit for the year 2011.
5. Selection of the firm of auditors and setting the conditions for auditor remuneration.

**April** The Board meeting of GRIGISKES AB on 11 April 2012 decided to provide Annual General Meeting of Shareholders of GRIGISKES AB to be held on 25 April 2012, the following information and documents: consolidated annual report of the Company for the year 2011, Auditor's report for the year 2011 and the set of consolidated annual financial statements and annual financial statements of the Company for the year 2011, project of appropriation of the Company's profit for the year 2011, Draft decisions on the agenda of the Annual General Meeting of Shareholders of GRIGISKES AB to be held on 25 April 2012 proposed by the Board, the general ballot paper.

**April** Over the year 2011 the turnover of GRIGISKES AB outmeasured LTL 159,3m (EUR 46,1m) and by LTL 14,3m (EUR 4,1m) or 9,9% exceeded forecasted turnover for 2011.

Over the same period the consolidated turnover of GRIGISKES AB Group, which consists of the production companies GRIGISKES AB, Baltwood UAB, Klaipėdos kartonas AB, Mena pak PAT and company engaged in the waste paper business of Klaipėda recycling UAB, outmeasured LTL 307,7m (EUR 89,1m). It is by LTL 7,7m (EUR 2,2m) or 2,6 % above proclaimed forecasted turnover for 2011.

Over the year 2011 audited profit before taxes of the GRIGISKES AB reached LTL 13,5m (EUR 3,9m) and was by LTL 8,7m (EUR 2,5m) or 2,8 times higher than it was forecasted.

Company's consolidated profit before taxes increased compared with the published forecasts for the year 2011 mostly due to the asset revaluation, which was needed by the transfer of a part of activities to the subsidiary Baltwood UAB, announced on December 2, 2011. Asset revaluation increased profit before taxes by LTL 5,8m (EUR 1,7m).

After the effect of asset revaluation is eliminated, the Company's audited profit before taxes is LTL 7,7m (EUR 2.2m)

Over the year 2011 an audited consolidated profit before taxes of GRIGISKES AB Group reached LTL 12,1m (EUR 3,5m) and was by LTL 0,1m (EUR 0,03m) higher than it was forecasted.

The Group's audited consolidated profit before taxes is by LTL 6,7m (EUR 1,9m) lower than the published Group's unaudited consolidated profit before taxes largely due to the mentioned elimination of business valuation effect.

**April** The General Meeting of shareholders of GRIGISKES AB was held on 25-04-2012. The meeting heard the consolidated annual report of the Company for the year 2011 and the Auditor's report for the year 2011 and made following resolutions:

- to approve the set of consolidated annual financial statements and annual financial statements of the Company for the year 2011;
- to approve the appropriation of Company's profit for the year 2011: for dividends to distribute LTL 0,02 (0,006 EUR) per ordinary registered share and to pay in total LTL 1.200.000 (347.544 EUR) of dividends, to appropriate LTL 676.751 (196.001 EUR) to the legal reserves and to appropriate LTL 120.000 (34.754 EUR) for bonuses to the members of the Board and Supervisory council.
- to elect an audit company KPMG Baltics, UAB (legal entity code 111494971) for the financial year 2012 and 2013 audit of consolidated and Company's financial statements, and to fix a sum payable for the audit services not more than 43.000 LTL (12.454 EUR) (plus VAT) for a single financial year.

**May**

In November 2010 GRIGISKES AB management decided to attract own capital for the investment of future projects, and it was decided to invest part of the attracted funds to the production of corrugated cardboard packaging. In the beginning of 2011, the company approved the construction project of corrugated cardboard manufacturing plant, and raised an ambitious goal – to implement the project within one year. A total of 20.5 million LTL (5.9 million EUR) was allocated to the project.

The project was completed within the stipulated time, and a new factory building was built. The new corrugated board manufacturing unit and the new corrugated cardboard packaging production lines were equipped in the new department. They will produce a much broader range of packages and a variety of custom corrugated products. Before the beginning of 2012, using old equipment, GRIGISKES AB could only produce up to 15 million sq. m of 4 mm thick ("C" type) corrugated cardboard and its products. However, since the second quarter of 2012, the new plant can produce 1.5 to 4 mm thick ("C", "B", "E" types) corrugated cardboard and its items. From now on, buyers are offered much wider range of products: not only standard boxes, but also packaging made by flat or rotary cutting of different thicknesses of corrugated cardboard with 4 colours of prints. "The new corrugated cardboard production unit can produce about 80 million sq. m of products per year," said GRIGISKES AB General Director Gintautas Pangonis.

"According to preliminary estimates, considering the adjustments of initial investment projects, the investment in this project amounted to about 20.5 million LTL (5.9 million EUR). This project strengthened our position in the corrugated cardboard market, and we also strive to create greater added value to our customers and better meet their needs. We hope that after starting the manufacture with new facilities, we will sell at least 1.5 times more packaging of products in 2012 than in the last year," G. Pangonis says.

GRIGISKES AB is the only company in Lithuania and in the Baltic countries, having a complete cycle of corrugated paperboard production in its group of companies – from the collection of raw materials (i.e., waste paper) to the manufacture of final products for consumers.

**May**

GRIGISKES AB is present at conference "CEO Meets Investor" held by NASDAQ OMX Vilnius AB. Here, in this event, Company's activities, results of the activities, plans and prospect of the Company are presented by general director Gintautas Pangonis.

**May**

AB GRIGISKES has successfully completed the first investment stage of 2011-2013 and continues the implementation of investment programme. As announced in December 2011, the planned release of the share issue would allow to implement the investment programme over 2012-2014. However, the company has prepared and is successfully implementing the alternative scenario where the investment programme is extended over a longer period of time from the company's operating cash flows.

Having invested 20.5 million litas (5.9 million euro) into the construction of a new corrugated cardboard production plant, AB GRIGISKES has already started the development of paper manufacture. The new paper cutting-duplication line has been installed in the industrial facilities of the company and the sheet towel production line is being equipped. They will be followed by paper handkerchiefs production line for regular products and products with aroma. "Investment in these lines already totals 3.5 million litas (1.0 million euro) out of 44.9 million litas (EUR 13 million euro) allocated for the development of paper products. Moreover, a new paper processing line has been ordered and should be delivered at the end of this year. In the near future we plan to buy the new tissue paper-making machine No 6", says general director of AB GRIGISKES Gintautas Pangonis.

The paper market is constantly changing, therefore, in the light of customer needs and the competitive environment, AB GRIGISKES also updates its Grite brand products.

"According to the information from AC Nielsen, the share of Grite toilet paper in the Lithuanian market has increased from 33 to 37.7 percent. Grite share in the towel segment grew from 7 to 18 percent. In the market of the Baltic States, the share of Grite toilet paper grew by one percent, from 25 to 26. The growth in the category of towels was 6.2 percent points, i.e. from 6.5 to 12.7 percent. These facts and the active interest in Grite and Grite Professional products in this year's international cleaning industry exhibition ISSA INTERCLEAN in Amsterdam inspires us for new achievements and challenges", G. Pangonis said.

**May**

On May 30, 2012 a new edition of Articles of association of GRIGISKES AB were registered in Register of legal entities.

The new edition of Articles of association of Company was released according to decisions of the extraordinary General Meeting of shareholders of GRIGISKES AB held on December 19, 2011:

As the Board of GRIGISKES AB decided to consider that the increase of share capital of Company was not passed, the share capital of GRIGISKES AB remained unchanged and equal to 60.000.000 LTL.

- With regard to the adopted resolution to increase the authorised capital of the Company, to amend paragraphs 3.1 and 4.1 of the Articles of Association of public limited liability company "GRIGISKES" and to read them as follows:

„5.1. The Company achieves civil rights, assumes civil duties and implements them through its bodies. Company's Organs:

- 5.1.1. General Meeting of Shareholders;
- 5.1.2. Supervisory Board;
- 5.1.3. Board;
- 5.1.4. Company manager – President.“



„9.1. The Company manager – President – is a single-person management body of the Company. The manager of the Company organises and executes commercial business activities of the Company. In his activities, the manager of the Company shall be guided by laws and other legal acts, the Articles of Association of the company, decisions of the General Meeting of Shareholders, decisions of the Supervisory Board and the Board, and his job description.“

The Articles of Association were changed according to the requirements of the Law on Companies of the Republic of Lithuania and current version of Classification of Economic Activities (NACE Rev. 2.).

**May** Over the three months of 2012 the Group which consists of producing companies GRIGISKES AB, Baltwood UAB, Klaipedos kartonas AB and Mena pak PAT reached a turnover of LTL 72.7m (EUR 21.1m), which is by LTL 3.9m (EUR 1.1m) or 5.1 % less than it was reached over the same period of 2011.

The Group's profit before taxes reached LTL 1.2m (EUR 0.3m) and is by LTL 0.4m (EUR 0.1m) less than it was over the same period of 2011.

Over the three months of 2012 the GRIGISKES AB reached a turnover of LTL 25.6m (EUR 7.4m), which is by LTL 16.3m (EUR 4.7m) or 38.9 % less than it was reached over the same period of 2011. On the 2nd of December 2011 disclosed transference of a part of activities to a subsidiary is the main reason of mentioned turnover decrease. The Company's profit before taxes reached LTL 2.2m (EUR 0.6m) and is by LTL 1.8m (EUR 0.5m) higher than it was over the same period of 2011.

More information is provided in the interim consolidated report of GRIGISKES AB covering the three months of 2012 with endorsement of the responsible persons (see attachments).

On the 9th of January 2012 proclaimed forecast of financial indicators for the year 2012 of GRIGISKES AB and the Group shall not be amended and shall remain valid.

**June** GRIGISKES AB has received notification from the Director of Corrugated board Department Viktoras Tirevičius on the transactions in issuer's securities (see attachment).

**July** Seeking to enhance production competitiveness, to reduce impact of gas price increase on business and to modernize its heat (steam) production facilities, GRIGISKES AB Company Group intends to implement two projects in Vilnius and Klaipeda.

Construction of a new minimum 17.5 MW thermal output biofuel boiler, which is partly to replace the existing boilers using natural gas, is planned on the premises of Klaipedos kartonas AB in the course of implementation of the project "Modernization of the existing boiler plant of Klaipedos kartonas AB through use of renewable energy resources". It is planned that the new biofuel boiler will generate approx. 50 percent of heat (steam) required for the company's technological needs. Following completion of the project, Klaipedos kartonas AB will reduce the costs of thermal energy production by approx. 40 percent. In addition, it is planned that the project will enable to supply part of the heat generated at a lower cost to the district heating network of Klaipeda City.

The assistance of up to 6.0 million Litas (1.7 million EUR) from the EU structural funds and the State Budget of the Republic of Lithuania was allocated for the planned Klaipėdos kartonas AB project under 24 July 2012 Order No. 4-740 of Minister of Economy of the Republic of Lithuania. Total project costs are estimated at 18.0 million Litas (5.2 million EUR).

Investment of 11.9 million Litas (3.4 million EUR) has been earmarked for implementation of the project "Construction of 10 MW steam boiler using renewable energy resources at GRIGISKES AB" which foresees building of a new minimum 10 MW thermal output biofuel boiler on the premises of GRIGISKES AB. Having regard to the current market situation, heat generated by the new boiler will enable to entirely abandon the use of fossil fuel used in production of heat required for the company's technological purposes. In addition, it is planned that the project will enable to supply heat at a lower cost to the district heating network of Vilnius City.

The assistance of up to 5.95 million Litas (1.7 million EUR) from the EU structural funds and the State Budget of the Republic of Lithuania was allocated for the planned GRIGISKES AB project under 24 July 2012 Order No. 4-740 of Minister of Economy of the Republic of Lithuania. Total project costs are estimated at 11.9 million Litas (3.4 million EUR).

## August

On August 3, sanitary paper products manufactured by GRIGISKES AB were awarded the EU Eco-label Flower. GRIGISKES AB is the first company in Lithuania to be awarded this label by the Environmental Protection Agency. The EU eco-label is awarded to goods and services meeting the environmental demands for EU eco-labelling scheme.

To produce its eco-products, GRIGISKES AB uses processed pulp or sustainably managed forest fibre thus saving electricity, using sustainable resources and reducing environment pollution. These products contain no harmful substances, are less polluting the environment and are not dangerous to health.

The EU Eco-label will provide an opportunity to better meet the needs of business partners. Also, the company will increase its competitiveness on the Lithuanian and international markets, in particular in the Scandinavian countries, where environmental protection and promotion of organic products are given a major focus. It will significantly enhance the company's opportunities for participation in green procurement (procurement, where the contracting authority includes one or more environmental criteria in its public tender conditions, choosing goods, services and work not only by their price and quality but also lower environmental impact in a single, several or all phases of the product lifecycle, thus promoting the development of more environmentally friendly products). With the EU eco-label, the company can participate in international tendering procedures, offering paper products with private label and presenting its products on major European trade networks. Until now, exports to the Scandinavian and other European countries were very limited, precisely because the company did not have the EU Eco-label.

This label is important on the Lithuanian market as well. The Lithuanian Government decree obliging budgetary institutions to significantly increase their volumes of green procurements became effective in January 2012. This year, green procurement will have to total at least 25 percent, in 2014 no less than 30 percent and in 2015 no less than 35 percent of the overall procurement amount, by volumes and by value.

- September** GRIGISKES AB has signed a contract with an audit company KPMG Baltic, UAB for the Company's and Group's annual financial statements audit for years 2012 and 2013. A sum payable for the audit services – 43,000 LTL (12,454 EUR) (plus VAT) for a single financial year.
- October** GRIGISKES AB is present at conference “Business plan 2013. Pulse of the market. What do corporate executives expect?” held by “Verslo žinios”. Here, in this event, president of the Company Gintautas Pangonis will discuss Lithuanian business relevant topics and will present the growth opportunities for year 2013 of Lithuanian industry and GRIGISKES AB group business.
- As it was published on 27.07.2012 seeking to enhance production competitiveness, to reduce impact of gas price increase on business and to modernize its heat (steam) production facilities, GRIGISKES AB Company Group intends to implement two projects in Vilnius and Klaipeda. For this purpose, GRIGISKES AB and Klaipedos kartonas AB signed tripartite agreements with the Lithuanian Ministry of Economy and Public Institution Lithuanian Business support Agency on the Cohesion Fund award these projects.
- By these contracts the assistance of 11.95 million LTL (3.5 million EUR) from the Cohesion Fund was allocated for GRIGISKES AB Group. Totally the companies will invest 30 million LTL (8.7 million EUR) into modernization of the heat sector.
- Till January 10, 2014 GRIGISKES AB plans to implement the project “Construction of 10 MW steam boiler using renewable energy resources at GRIGISKES AB” No. VP3-3.4-ŪM-02-K-02-020 of value of 11.9 million LTL (3.4 million EUR) and to start using a new biofuel steam boiler. A subsidiary company Klaipedos kartonas AB plans to implement the project “Modernization of the existing boiler plant of Klaipedos kartonas AB through use of renewable energy resources” No. VP3-3.4-ŪM-02-K-02-003 of value of 18 million LTL (5.2 million EUR) and to start using thermal energy (steam form) produced from biofuel in manufacturing processes till February 28, 2014.
- It is expected that in Klaipeda new biofuel steam boiler will produce about 50 percent of heat consumption of the company's technological needs and in Grigiskes, having regard to the current market situation, heat generated by the new boiler will enable to entirely abandon the use of fossil fuel used in production of heat required for the company's technological purposes.
- November** GRIGISKES AB has received notification from the Technical Director of Paper Department Audrius Maminskas on the transactions in issuer's securities.
- November** Over the nine months of 2012 the Group which consists of producing companies GRIGISKES AB, Baltwood UAB, Klaipedos kartonas AB and Mena pak PAT reached a turnover of LTL 218.7m (EUR 63.3m), which is by LTL 16.5m (EUR 4.8m) or 7 % less than it was reached over the same period of 2011.
- The Group's profit before taxes reached LTL 9.7m (EUR 2.8m) and is by LTL 1.4m (EUR 0.4m) more that it was over the same period of 2011.

Over the nine months of 2012 the GRIGISKES AB reached a turnover of LTL 81.3m (EUR 23.5m), which is by LTL 39.1m (EUR 11.3m) or 32.5 % less than it was reached over the same period of 2011. On the 31st of December 2012 implemented transference of a part of activities to a subsidiary is the main reason of mentioned turnover decrease.

The Company's profit before taxes reached LTL 7.7m (EUR 2.2m) and is by LTL 3.1m (EUR 0.9m) higher than it was over the same period of 2011.

More information is provided in the interim consolidated report of GRIGISKES AB covering the nine months of 2012 with endorsement of the responsible.

**November** On 9 January 2012 proclaimed forecast of financial indicators for the year 2012 of GRIGISKES AB and the Group shall be changed latter today as the results of the nine months and tendencies of the fourth quarter of the year 2012 were evaluated.

As the results of the nine months and tendencies of the fourth quarter of the year 2012 were evaluated the forecast of financial indicators for the year 2012 of GRIGISKES AB and the Group proclaimed on the 9th of January 2012 is changed.

It is planned that The Group which consists of companies GRIGISKES AB, Baltwood UAB, Klaipedos kartonas AB, Klaipeda recycling UAB and Mena pak PAT in the year 2012 will reach a turnover of LTL 290m (EUR 84.0m), which is by LTL 17.7m (EUR 5.1m) or 5.8% lower compared to the audited turnover of 2011. The Group's profit before taxes will reach LTL 13m (EUR 3.8m) and will be higher by LTL 1m (EUR 0.3m) or 8.3% compared to the audited one of the year 2011.

Group turnover forecast is reduced for the following reasons. Although this year, a subsidiary company Klaipedos kartonas AB production amount reached the quantities of 2011, turnover decreased as the average market prices of cardboard paper fell by 13-14% compared to nine months of the year 2011. The second reason is the larger amount of intra-group transactions, the subject for consolidation, influenced by implemented optimisation of the supply of the raw materials. Forecasted Group's profitability before taxes for the year 2012 is 4.5%, compared to the audited 3.9% of the year 2011. The mentioned higher profitability is influenced by optimisation mentioned above.

It is also planned that GRIGISKES AB in the year 2012 will reach a turnover of LTL 111m (EUR 32.1m) and will be less by LTL 48.3m (EUR 14m) than audited sales of the year 2011 are. On the 31st of December 2012 implemented transference of a part of activities to a subsidiary is the main reason of mentioned turnover decrease. The company will earn a profit before taxes of LTL 9.5m (EUR 2.8m) which will be by two times higher than it was forecasted in the beginning of the year.

### 13.2. Newest events in the Issuer's activities

**January** The Board meeting on January 10, 2013 approved budget for the year 2013. It is planned that the Group which consists of companies GRIGISKES AB, Baltwood UAB, Klaipedos kartonas AB, Klaipeda recycling UAB, Mena pak PAT and Klaipeda recycling UAB in the year 2013 will reach a turnover of LTL 330m (EUR 95.6m), which is by LTL 40m (EUR 11.6m) or 13.8% over the expected turnover of 2012. The Group's profit before taxes will reach LTL 13.4m (EUR 3.9m) and will be by LTL 3% higher than it is expected for the year 2012.



It is also planned that GRIGISKES AB in the year 2013 will reach a turnover of LTL 148m (EUR 42.8m) and will be higher by LTL 37m (EUR 10.7m) than it is expected for the year 2012. The company will earn a profit before taxes of LTL 7m (EUR 2m) which will be by LTL 2.5m (EUR 0.7m) less than it is expected for the year 2012.

The activity of the year 2013 will be focused on the development of the hygienic paper and corrugated cardboard and related products sales in Lithuania and foreign markets. In planning the activities for the year 2013 tendencies of the market were evaluated.

Also, there is no doubt that the achievement of approved objectives will be supported by the implementation of the program of investments to development of the base of production. In the year 2012 the new corrugated cardboard production plant, sheet towel and paper handkerchiefs production lines started to work. Currently new paper processing line starts to work too. In total investments in the mentioned objects will amount LTL 33m (EUR 9.6m).

In order to expand sales and increase the competitiveness of the products in 2013 the Group will continue its investment program. As it is already mentioned in previous reports on the material event, the Group will invest LTL 30m (EUR 8.7m) to two biofuel boilers building in Vilnius and Klaipėda. LTL 11.95m (EUR 3.5m) of this amount will be the Cohesion Fund support.

In addition to that in 2013 it is expected to launch a new investment project of paper machine No. 6.

These forecasts have not been audited.

## February

GRIGISKES AB informs that all the operations of the Group of GRIGISKES AB are financed from accounts in other banks operating in the territory of the Republic of Lithuania.

Till 12.02.2013 a negligible number of customers of all Group companies made settlement from their accounts in "Ūkio bankas" AB. Sales to these customers accounted for a negligible share of each Group company's turnover.

In addition, GRIGISKES AB Group is insuring the potential customer's creditworthiness.

For these reasons, the decision of the Board of the Bank of Lithuania to temporarily restrict operation of "Ūkio bankas" AB has no significant direct effect on activities and results of GRIGISKES AB or other companies of the Group.

## February

On 20th February 2013, GRIGISKES AB and SEB bank AB signed a loan supply contract for LTL 35m (EUR 10.1m). This begins the third stage of the investment program announced in April 2011, the company's President Gintautas Pangonis announced.

As announced in earlier reports about material event, in 2012 GRIGISKES AB completed the first stage of the investment program when it invested LTL 20.5m (EUR 5.9m) and built and put into operation a new corrugated cardboard production unit equipped with modern production lines. The second stage consisted of an investment of another LTL 12.5m (EUR 3.6m) to increase the output of the paper production unit by the addition of four new paper processing production lines.

The loan to be obtained as a result of the financing contract signed yesterday will be used to purchase a new paper manufacturing machine. This investment project will take two years and will involve more than LTL 53m (EUR 15.3m). It is planned to have the new production line operating by the end of 2014. GRIGISKES AB intends to purchase a new, up-to-date, European paper manufacturing machine. This paper manufacturing machine will be the most modern and will permit the company to adapt more quickly to the ever-fluctuating needs of the market, to satisfy clients' requirements more satisfactorily, to produce a product of even higher quality and to expand the product range. There is no doubt that these investments will help the company strengthen its position in the European market and will make it possible for it to compete successfully with other manufacturers of paper products. It is foreseen that the production capabilities of the newest paper manufacturing machine will be double those that currently exist; and the new paper manufacturing machine will replace the two machines with the lowest output of the three paper manufacturing machines that are currently operating.

GRIGISKES AB plans that at the end of 2014 when it has implemented the above-mentioned investment program, sales of the company's products will double in the following two years. It is hoped that the growing sales figures of the group of companies will reach LTL 500m (EUR 145m).

### *13.3. Offices and branches*

Company has Country sales representatives operating in Latvia, Estonia and Poland. No new offices or branches are planned to open in 2013.

### *13.4. Risk factors*

Information about financial risk management is provided in notes of annual audited consolidated statements of 2012.

#### *Economic risk factors*

**Paper production.** As Company's paper production is export accounts for around 42,1 percent of all paper products sales, the sales are affected by exchange rate fluctuations, as well as transport and raw material prices. Since the main export sales currency is euro, exchange rate risk is at a minimum.

In 2013, as in 2012, Company plans growth of sales in all markets.

**Corrugated cardboard and related products.** It is planned that the rise of prices of corrugated cardboard and related products will be caused by raw materials' prices rise and growing consumption. Main risks of this business come from changes in raw material's prices.

#### *Social risk factors*

Salaries are paid in terms set in collective agreement.

#### *Technical – technological risk factors*

On purpose to improve technical level of production supply Company's production equipment and buildings are constantly upgraded, new equipment is acquired and processes are automated. In 2012 Company installed a "Moldow" air-purifier produced by the Danish company, Moldow A/S, to reduce the volume of particulate matter discharged into the environment in the process of paper manufacturing. A modern filter equipped with an automatic regenerative filter system allows significant reduction of particle pollution.

On August 3 of 2012, sanitary paper products manufactured by GRIGISKES AB were awarded the EU Eco-label Flower. GRIGISKES AB is the first company in Lithuania to be awarded this label by the Environmental Protection Agency. The EU eco-label is awarded to goods and services meeting the environmental demands for EU eco-labelling scheme. To produce its eco-products, GRIGISKES AB uses processed pulp or sustainably managed forest fibre thus saving electricity, using sustainable resources and reducing environment pollution. These products contain no harmful substances, are less polluting the environment and are not dangerous to health.

In September 2011, Company began to implement an environmental management system in accordance with the requirements of standard LST EN ISO 14001. On 8-9 May 2012, certification of the quality and environmental management systems of AB Grigiškės was carried out as part of the last stage of the project. The certification was performed by UAB Det Norske Veritas, which represents DNV Business Assurance, one of the world's leading certification/registration institutions. As a result of successful certification, the company's management systems were approved as conforming to standards LST EN ISO 9001 and LST EN ISO 14001.

#### *Ecological risk factors*

The Company carrying out business activities, follow "Pollution integrated prevention and control" principles. Rational use of energy and natural resources, applying modern production and environmental components cleaning technologies without compromising product quality.

Company For used natural resources (water) and for environment pollution (air pollution caused by steam shop, technological equipment and mobile pollution sources, water pollution caused by rain outflows) Company pays taxes. Polluted water is cleaned in mechanical way and pumped to Vilnius city biological cleaning complex.

Management system operating in accordance with ISO 14001 was implemented in 2012.

### *13.5. Suppliers*

13.5.1 table. Countries of suppliers' of main raw materials and materials for the Company

Supplier's country	2012 m.	2011 m.
	proc.	proc.
Lithuania	68	76
Estonia	5	4
Poland	2	3
Latvia	1	1
Germany	2	1
Belarus	0	0
Austria	1	0
Other countries	21	15
<b>TOTAL</b>	<b>100</b>	<b>100</b>

### *13.6. Segment information*

In the year 2012 for management purposes, the Group was organized into three and the Company was organized into two operating business units based on their products produced and have three reportable segments: paper, hardboard and wood processing, raw material for corrugated cardboard and related production.

### 13.7. Strategy of the activity and plans for the close future

It is planned that the Group which consists of companies GRIGISKES AB, Baltwood UAB, Klaipedos kartonas AB, Klaipeda recycling UAB, Mena pak PAT and Klaipeda recycling UAB in the year 2013 will reach a turnover of LTL 330m (EUR 95.6m), which is by LTL 40m (EUR 11.6m) or 13.8% over the expected turnover of 2012. The Group's profit before taxes will reach LTL 13.4m (EUR 3.9m) and will be by LTL 3% higher than it is expected for the year 2012.

It is also planned that GRIGISKES AB in the year 2013 will reach a turnover of LTL 148m (EUR 42.8m) and will be higher by LTL 37m (EUR 10.7m) than it is expected for the year 2012. The company will earn a profit before taxes of LTL 7m (EUR 2m) which will be by LTL 2.5m (EUR 0.7m) less than it is expected for the year 2012.

The activity of the year 2013 will be focused on the development of the hygienic paper and corrugated cardboard and related products sales in Lithuania and foreign markets. In planning the activities for the year 2013 tendencies of the marked were evaluated.

Also, there is no doubt that the achievement of approved objectives will supported by the implementation of the program of investments to development of the base of production. In the year 2012 the new corrugated cardboard production plant, sheet towel and paper handkerchiefs production lines started to work. Currently new paper processing line starts to work too. In total investments in the mentioned objects will amount LTL 33m (EUR 9.6m).

In order to expand sales and increase the competitiveness of the products in 2013 the Group will continue its investment program. As it is already mentioned in previous reports on the material event, the Group will invest LTL 30m (EUR 8.7m) to two biofuel boilers building in Vilnius and Klaipeda. LTL 11.95m (EUR 3.5m) of this amount will be the Cohesion Fund support.

Next to that, implementations works of investment project of paper-making machine No. 6 are projected to be started already in 2013.

### 13.8. Financial indicators

Financial ratios	2010, audited		2011		2012	
	Group	Company	Group	Company	Group	Company
EBITDA	35.625.442	16.126.187	40.792.205	22.507.154	35.586.189	20.608.752
EBITDA profitability	14,5%	12,4%	13,3%	14,1%	12,3%	18,6%
Gross margin	13,3%	10,9%	15,1%	14,4%	15,7%	18,1%
Operating margin	6,1%	1,8%	6,3%	5,7%	4,6%	8,3%
Net margin	3,1%	1,2%	4,2%	8,5%	3,2%	7,6%
ROE, %	9,8%	2,0%	13,8%	15,7%	9,1%	8,8%
ROA, %	4,2%	1,1%	5,2%	9,0%	3,7%	5,4%
Current ratio	0,81	0,71	0,87	0,68	0,66	0,49
Quick ratio	0,52	0,47	0,50	0,49	0,40	0,33
Cash to current liabilities	0,020	0,009	0,032	0,002	0,015	0,005
P/E	21,29	105,65	7,49	7,07	12,21	13,43
Earnings per share	0,13	0,03	0,21	0,23	0,16	0,14
Debt to equity ratio	1,64	0,76	1,45	0,54	1,32	0,57
Debt to total assets ratio	0,60	0,41	0,57	0,33	0,55	0,35

### 13.9. Patents, licenses and research

The Company and the Group have no patents and licenses.



## 13.10. Environment protection

Emission allowances movement for the year 2012

	Amount, pcs.	
	The Group	The Company
31 December 2011	(9.911)	(6.390)
Emission allowances allocated	126.393	94.081
Purchase of emission allowances		
Emission allowances used	(25.109)	(51)
Sale of emission allowances		
<b>31 December 2012</b>	<b>91.373</b>	<b>87.640</b>

## 14. RELATED PARTY TRANSACTIONS

All transactions with related persons were carried out at market prices.

AB „Klaipėdos kartonas“ – subsidiary of Grigiskės AB.

Baltwood UAB – subsidiary of Grigiskės AB.

Mena pak PAT – subsidiary of Grigiskės AB.

AGR Prekyba UAB – subsidiary of Grigiskės AB.

Ginvildos Investicija UAB – major shareholders of Grigiskės AB.

Didma UAB, Remada UAB and Naras UAB – companies related to companies related to the members of Supervisory Council.

Ekotara UAB – subsidiary of the group not subject to consolidation.

Naujieji Verkiai UAB – subsidiary of the group not subject to consolidation.

Klaipėda recycling UAB – subsidiary of Grigiskės AB.

Grigiškių energija UAB – subsidiary of the group not subject to consolidation.

14.1. table. Group's transactions with related persons over the twelve months of 2012. Balances of amounts receivable/payable in relation thereto on 31 December 2012 (LTL)

	Sales of goods and services	Acquisition of goods and services	Receivable from related persons	Amounts payable to related persons
Ginvildos Investicija UAB	32	148.180		52.938
Didma UAB	1.573	133.275		
Remada UAB				
Ekotara UAB				
Naras UAB				
Naujieji Verkiai UAB	12.024		1.492	
<b>Total</b>	<b>13.629</b>	<b>281.455</b>	<b>1.492</b>	<b>52.938</b>

14.2. table. Company's transactions with related persons over the twelve months of 2012. Balances of amounts receivable/payable in relation thereto as at 31 December 2012 (LTL)

	Sales of goods and services	Acquisition of goods and services	Receivable from related persons	Amounts payable to related persons
Baltwood UAB	21.009.321	9.248.462	1.166.340	
Ginvildos Investicija UAB	32	148.180		52.938
Didma UAB	1.573	133.275		
Klaipėda recycling UAB	2.828.974	220.450	54.170	
Klaipėdos kartonas AB	159.493	11.260.148	19.275	3.115.631
Naujieji Verkiai UAB	12.024		1.492	
<b>Total</b>	<b>24.011.417</b>	<b>21.010.515</b>	<b>1.241.277</b>	<b>3.168.569</b>

## 15. COURT AND ARBITRATION PROCEEDINGS

During the twelve months of 2012 the Group and the Company were not involved in any legal proceedings would have a material impact on the financial statements.

## CONFIRMATION OF RESPONSIBLE PERSONS

Pursuing Article 22 of the Law on Securities of the Republic of Lithuania, and the Rules for Preparation and Announcement of Periodical and Supplementary Information approved by the Board of the Bank of Lithuania, we, the undersigned – President Gintautas Pangonis and Vice President for finance Nina Šilerienė approve that the audited financial statements of Grigiskės AB for the year 2012, as made in compliance with applicable accounting standards, are true, correctly reflect issuer's and aggregate consolidated companies' assets, liabilities, financial standing, profit or loss, cash flow and also that the consolidated annual report for the year 2012 shows fair business environment as well as description of the company's performance.

President

Gintautas Pangonis

Vice President for Finance

Nina Šilerienė

## 16. INFORMATION ON COMPLIANCE WITH GOVERNANCE CODE

The public company Grigiskės, following Article 21(3) of the Law on Securities of the Republic of Lithuania and item 24.5 of the Trading Rules of the stock exchange NASDAQ OMX Vilnius, 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 APPLICA- BLE	COMMENTARY
<b>Principle I: Basic Provisions</b>		
<b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
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 result 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.
<b>Principle II: The corporate governance framework</b>		
<b>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.</b>		
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 carries out other essential managerial functions in the Company. The council of observers (supervisory board) is responsible for the efficient supervision of the managing bodies of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	Both the council of observers (supervisory board) and the management board are formed in the Company.

2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. <sup>1</sup>	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. <sup>2</sup>	Yes	The management board of 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 Grigiskės, 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 depart 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.
<b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b>		
<b>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.<sup>3</sup></b>		
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.

<sup>1</sup> Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

<sup>2</sup> Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.

<sup>3</sup> Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.



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	<p>Latest 21 day 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.</p> <p>Information about the members of the council of observers and the management board is disclosed by the Company in its periodical reports.</p> <p>Accordingly, there is enough time for the shareholders to decide on which nominee they will vote.</p>
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	<p>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.</p> <p>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.</p> <p>Information about the members to the council of observers is disclosed by the Company in its periodical reports.</p>
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined 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. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	The members to the collegial body of the Company, as formed by the general meeting of shareholders, are elected taking into consideration the structure and types of activities of the Company; the members have versatile knowledge, opinions and experience necessary for the proper performance of their tasks.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	New members elected to the collegial bodies of the Company are made familiar with the Company, its organization, activity specifics, etc.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient <sup>4</sup> number of independent <sup>5</sup> 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 dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and	Yes	According to the criteria laid down in paragraph 3.7, there is an independent member in the council of observers of the Company.

<sup>4</sup> The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

<sup>5</sup> It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

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:

- 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;
- 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;
- 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);
- 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);
- 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;
- 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;
- 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;
- 8) He/she has not been in the position of a member of the collegial body for over than 12 years;
- 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 <sup>6</sup> . The general shareholders' meeting should approve the amount of such remuneration.	Yes	Members of the collegial bodies were remunerated for their work from the funds of the Company by tantjemes.
<b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b>  <b>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<sup>7</sup> of the company's management bodies and protection of interests of all the company's shareholders.</b>		
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. <sup>8</sup>	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	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.

<sup>6</sup> It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

<sup>7</sup> See Footnote 3.

<sup>8</sup> See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.



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).		
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 <sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of the collegial body properly perform the functions delegated to them: actively participate at the sitting of the collegial body and devote sufficient time for the performance of their duties as the members of the collegial body.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The collegial body treat all shareholders in a fair and unbiased manner. There have been no conflicts of interests so far.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	In accordance with the Articles of Association, transactions of the Company shall be considered and approved by the management board: <ul style="list-style-type: none"> <li>• decisions to invest, transfer or lease the tangible long-term assets the book value whereof exceeds 1/20 of the statutory capital of the company (calculated individually for every type of transaction);</li> <li>• decisions to pledge or mortgage the tangible long-term assets the book value whereof exceeds 1/20 of the statutory capital of the company (calculated for the total amount of transactions);</li> <li>• decisions to offer surety or guarantee for the discharge of obligations of third parties the amount whereof exceeds 1/20 of the statutory capital of the company;</li> <li>• decisions to acquire the tangible long-term assets the price whereof exceeds 1/20 of the statutory capital of the company.</li> </ul>
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. <sup>10</sup> 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. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	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.

<sup>9</sup> It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

<sup>10</sup> In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

<p>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<sup>11</sup>. 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.</p>	Yes	<p>An Audit committee is formed in the Company.</p> <p>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.</p>
<p>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 exercise independent judgment and integrity when exercising its functions as well as 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.</p>	Yes	<p>An Audit committee is formed in the Company.</p>
<p>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. 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.</p>	Yes	<p>An Audit committee of the Company is composed of 3 members.</p>
<p>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</p>	Yes	<p>The authority of the Audit committee is determined by Supervisory Council by approving the Audit committee's internal rules.</p>

<sup>11</sup> The Law on Audit of the Republic of Lithuania (*Official Gazette*, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

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.		
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.	Yes	According to the Audit Committee's internal rules the Audit Committee has the right to invite to its meetings the Chairman of the Supervisory Board and certain employees of the Company, the external auditor.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:  <ol style="list-style-type: none"> <li>1) 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;</li> <li>2) 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;</li> <li>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>4) Properly consider issues related to succession planning;</li> <li>5) Review the policy of the management bodies for selection and appointment of senior management.</li> </ol> 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 nomination committee has been formed in the Company so far.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:  <ol style="list-style-type: none"> <li>1) 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;</li> </ol>	No	No remuneration committee has been formed in the Company so far.

<p>2) 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;</p> <p>3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;</p> <p>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</p> <p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>6) 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);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>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:</p> <ol style="list-style-type: none"> <li>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>3) 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.</li> </ol> <p>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.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> <li>1) 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);</li> </ol>	Yes	An Audit committee is formed in the Company.



2) 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;

3) 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;

4) 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;

5) 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;

6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

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.

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.

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.

<p>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.</p> <p>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.</p> <p>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.</p>		
<p>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.</p>	No	Such practice has not been applied in the Company.
<p><b>Principle V: The working procedure of the company's collegial bodies</b></p> <p><b>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.</b></p>		
<p>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.</p>	Yes	The Company fully complies with these recommendations.
<p>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.<sup>12</sup></p>	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.

<sup>12</sup> The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

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 five days) by sending them the agenda and materials of the meeting by e-mail (at least before 2 days), so that they'd have enough time to properly prepare for consideration of the issues to be addressed at the meeting 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-ordinating 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.
<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>  <b>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.</b>		
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 60.000.000 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. <sup>13</sup> 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	The approvals of General meeting shareholders are obtained for important transactions with the criteria established in the Company Law of Republic of Lithuania and the articles of association of the company.
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.	Yes	Procedures of convocation and holding the general meetings of shareholders of AB Grigiskės 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 <i>Lietuvos Rytas</i> 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. Information is also disclosed in the Central database of regulated information administrated by NASDAQ OMX Vilnius and on the Company's website: <a href="http://www.grigiskes.lt">www.grigiskes.lt</a> .

<sup>13</sup> The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages 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 Lithuanian, 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	The Company fully complies with this recommendation.
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 Grigiskės may exercise their right to attend the general meeting of shareholders personally or through a proxy, provided such a person is properly authorized or is a party to a voting right cession agreement made in the statutory procedure; also, the shareholders of the Company may vote by filling in common ballot-papers as it is stipulated in the Company Law.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, 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.
<b>Principle VII: The avoidance of conflicts of interest and their disclosure</b>  <b>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.</b>		
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.
<b>Principle VIII: Company's remuneration policy</b>  <b>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.</b>		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	Such practice has not been applied in the Company so far.
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: <ol style="list-style-type: none"> <li>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</li> <li>5) Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>6) Sufficient information on the linkage between the remuneration and performance;</li> <li>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>8) Sufficient information on the policy regarding termination payments;</li> <li>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</li> <li>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>13) Remuneration statement should not include commercially sensitive information.</li> </ol>	No	Such practice has not been applied in the Company so far.

<p>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.</p>	No	Such practice has not been applied in the Company so far.
<p>8.5. 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 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) 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;</li> <li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li> <li>4) 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;</li> <li>5) 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;</li> <li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ol> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>2) 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;</li> <li>3) 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;</li> <li>4) All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ol>	No	Such practice has not been applied in the Company so far.

<p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>2) 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.</li> </ol> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report 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.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
<p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p>	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
<p>8.11. Termination payments should not be paid if the termination is due to inadequate performance.</p>	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
<p>8.12. 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.</p>	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
<p>8.13. Shares should not vest for at least three years after their award.</p>	No	The remuneration policy of disclosure practice has not been applied in the Company so far.

8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	No	The remuneration policy of disclosure practice has not been applied in the Company so far.
8.18. 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	The remuneration policy of disclosure practice has not been applied in the Company so far.
8.19. 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.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: <ul style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>5) 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.</li> </ul> <p>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.</p>	No	Such practice has not been applied in the Company so far.

8.21. 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.
8.22. Provisions of Articles 8.19 and 8.20 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.
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, 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.
<b>Principle IX: The role of stakeholders in corporate governance</b>  <b>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.</b>		
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.
<b>Principle X: Information disclosure and transparency</b>  <b>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.</b>		
10.1. The company should disclose information on: <ul style="list-style-type: none"> <li>1) The financial and operating results of the company;</li> <li>2) Company objectives;</li> <li>3) Persons holding by the right of ownership or in control of a block of shares in the company;</li> </ul>	Yes	The Company complies with this recommendation.



<p>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</p> <p>5) Material foreseeable risk factors;</p> <p>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</p> <p>7) Material issues regarding employees and other stakeholders;</p> <p>8) Governance structures and strategy.</p> <p>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.</p>		
10.2. It is recommended to the company, which is the parent of other companies, 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.	Partly	The Company regularly discloses information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company as well as potential conflicts of interest that may have an effect on their decisions.
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 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 NASDAQ OMX 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	<p>The Company publishes information through the Central database of regulated information administrated by NASDAQ OMX Vilnius 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 stock exchange NASDAQ OMX Vilnius 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 Central database of regulated information administrated by NASDAQ OMX Vilnius.</p> <p>The mentioned information is also placed on the website of the Company: <a href="http://www.grigiskes.lt">www.grigiskes.lt</a>.</p>
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge 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.
<b>Principle XI: The selection of the company's auditor</b> <b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b>		
11.1. An annual audit of the company's financial reports and interim reports 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.	Yes	The Company complies with this recommendation. In 2012 Audit company has not rendered other services for the company.