

## CONFIRMATION OF RESPONSIBLE PERSONS

Pursuing Part 2 of Article 22 of the Law on Securities of the Republic of Lithuania, and rules prepared by the Lithuanian Securities Commission for preparation and announcement of periodical and supplementary information, we, the undersigned – President Gintautas Pangonis and Director of Finance Department Nina Šilerienė approve that not audited consolidated financial statements of GRIGISKES AB for the three months of 2012 year, 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 report for the three months of 2012 year shows fair business environment as well as description of the company's performance.

President of GRIGISKES AB



Gintautas Pangonis

Director of Finance Department  
of GRIGISKES AB



Nina Šilerienė

**GRIGIŠKĖS AB**

*Interim information for the three months of 2012*

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## 1. REPORTING PERIOD FOR WHICH THIS FINANCIAL STATEMENTS HAVE BEEN PREPARED

Reports have been prepared for the three months of 2012.

## 2. AUDIT INFORMATION

The interim consolidated information of Grigiškės AB covering the three months of 2012 is not audited or checked-up by auditors.

## 3. GROUP COMPANIES AND THEIR CONTACT DETAILS

Grigiškės AB (further the Company or the Issuer) has eight subsidiaries: Klaipėdos kartonas AB, Baltwood UAB; Ekotara UAB; Naujieji Verkiai UAB, Mena Pak OAO, AGR Prekyba UAB, Klaipėda Recycling UAB and Grigiškių energija UAB.

Status	Issuer	Subsidiary	Subsidiary
Name	Grigiškės 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 Grigiškės AB	Company has not acquired any shares of itself	95,78 %	100 %
Address	Vilniaus str. 10, Grigiškės, Vilnius	Nemuno str. 2, Klaipėda	Vilniaus str. 10, Grigiškės, 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@grigiskes.lt">info@grigiskes.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.grigiskes.lt">www.grigiskes.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 OAO
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 Grigiškės AB	100 %	100 %	93,79 %
Address	Vilniaus str. 10, Grigiškės, Vilnius	Popieriaus str. 15, Vilnius	Koshevovo str. 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@grigiskes.lt">info@grigiskes.lt</a>	<a href="mailto:info@grigiskes.lt">info@grigiskes.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 distr. 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	10.010.000 LTL	200.000 Lt	10.000 Lt
Shares directly or indirectly controlled by Grigiškės AB	100 %	71,84 %	50 %
Address	Vilniaus str. 10, Grigiškės, Vilnius	Nemuno str. 2, Klaipėda	Vilniaus str. 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, medical cellulose wadding, 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, self-coloured and painted hardboard (see material event announced on 02.01.2012).

Core business activities of Mena Pak OAO are as follows: manufacturing of corrugated board, packing from corrugated board.

Core business activities of Ekotara UAB are as follows: manufacturing of corrugated board, packing 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 a 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 str. 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 str. 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.

The Company has signed an engagement letter with SEB Enskilda UAB (Company's ID No. 221949450) on the GRIGISKES AB new shares issuing and selling.

## 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

On the 31<sup>st</sup> of March 2012 there were 2.608 shareholders of Grigiškės AB.

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

7.2. table. Shareholders owning in excess of 5 per cent of the authorised capital of the Issuer on the 31<sup>st</sup> of March 2012.

Shareholder's name (company's name, type, headquarters address, corporate ID number)	31 March 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 g. 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

## 8.2. figure. Share price and turnover 01.01.2004 – 31.03.2012.



## 8.3. Capitalisation of the Company's shares

## 8.3. table. Capitalisation of the Company's shares

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

## 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 first three months of the year 2012 the number of the Group employees fluctuated naturally.

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

	31.03.2012	31.12.2011
Number of employees	930	997

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

	31.03.2012	31.12.2011
Number of employees	273	283

### 9.3. table. Number of employees of the Group, average salary and grouping of employees by education during the three months of 2012.

Employees	Average salary	Employees by education				
		University	College	Secondary	Basic	Elementary
Workpeople	1.987	39	175	439	32	5
Managers	4.940	93	16	1	-	-
Specialists	2.765	97	29	4	-	-
<b>Total</b>	<b>2.432</b>	<b>229</b>	<b>220</b>	<b>444</b>	<b>32</b>	<b>5</b>

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

Employees	Average salary	Employees by education				
		University	College	Secondary	Basic	Elementary
Workpeople	1.952	47	177	471	66	9
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>66</b>	<b>9</b>

### 9.5. table. Number of employees of the Company, average salary and grouping of employees by education during the three months of 2012.

Employees	Average salary	Employees by education				
		University	College	Secondary	Basic	Elementary
Workpeople	2.401	17	43	107	7	-
Managers	5.209	45	6	-	-	-
Specialists	3.595	34	10	4	-	-
<b>Total</b>	<b>3.136</b>	<b>96</b>	<b>59</b>	<b>111</b>	<b>7</b>	<b>0</b>

9.6. table. Number of employees of the Company, average salary and grouping of employees by education in 2011.

Employees	Average salary	Employees by education				
		University	College	Secondary	Basic	Elementary
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>	<b>0</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. 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.

### 11.1. Members of the managing bodies

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

Full names	Positions	Capital share and votes, %
<b>SUPERVISORY COUNCIL</b>		
Norimantas Stankevičius	Chairman	-
Algimantas Goberis	Member	-
Romualdas Juškevičius	Member	-
Tautvilas Adamonis	Member	-
Daiva Duksienė	Member	-
<b>BOARD</b>		
Gintautas Pangonis	Chairman	0,22
Nina Šilerienė	Member	0,07
Vigmantas Kažukauskas	Member	0,33
Normantas Paliokas	Member	-
Vytautas Juška	Member	-
<b>ADMINISTRATION</b>		
Gintautas Pangonis	Director General	0,22
Nina Šilerienė	Director of Finance Department	0,07
Vigmantas Kažukauskas	Director for Business Development	0,33

### 11.2. Information of the Chairman of the Board, Head of Administration and Director of Finance Department

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

Employers	Positions
Grigiškės AB	Director general, chairman of the board

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

Employers	Positions
Grigiškės AB	Director of Finance Department, member of the board

### 11.3. 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)

11.3. 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
	Grigiškės AB	Chairman of the supervisory council		
Algimantas Goberis	Grigiškės AB	Member of the supervisory council		
Romualdas Juškevičius	Grigiškės AB	Member of the supervisory council		
Tautvilas Adamonis	Remada UAB	Director General	Remada UAB	100,0
	Grigiškės AB	Member of the supervisory council		
	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		

Name	Business participation		Capital interest	
	Name of enterprise, agency and organisation	Positions	Name of enterprise, agency and organisation	Capital share and votes, %
	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 OAO	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	Director for 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	Purchasing and Logistic Director		
	Grigiškės AB	Member of the board		
	Baltwood UAB	Member of the board		
	Grigiškių energija UAB	Member of the board		
Nina Šilerienė	Grigiškės AB	Director of Finance Department	Grigiškės AB	0,07
	Grigiškės AB	Member of the board		
	Klaipėdos kartonas 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, %
	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		

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

The Supervisory Council of Grigiskes AB was elected on the 26<sup>th</sup> of April 2011 for a 4 years' period (ending in 2015). The Board of the Company was elected on the 26<sup>th</sup> of April 2011 for a 4 years' period (ending in 2015).

## 12. INFORMATION ABOUT COMPLIANCE WITH GOVERNANCE CODE

Grigiskes AB follows a Corporate Governance Code for the Companies Listed on the Vilnius Stock Exchange. Information presented in the Annual Report of 2011 has not undergone any changes.

## 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 fiber 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.

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 OAO and company engaged in the waste paper business of Klaipeda recycling UAB reached LTL 308 Mio. (EUR 89.2 Mio.) which is by LTL 8 Mio. (EUR 2.3 Mio.) or 2.7% higher than proclaimed forecasted turnover for 2011.

Over the twelve months of 2011 the turnover of GRIGISKES AB outmeasured LTL 159 Mio. (EUR 64 Mio.) and was by LTL 14 Mio. (EUR 4.1 Mio.) 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 OAO in the year 2012 will reach a turnover of LTL 322 Mio. (EUR 93.3 Mio), which is LTL 22 Mio (EUR 6.4 Mio) or 7.3% over the turnover of 2011. The Group's profit before taxes will reach LTL 15 Mio (EUR 4.3 Mio) and will be LTL 3 Mio (EUR 0.9 Mio) 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 117 Mio (EUR 33.9 Mio) and will be less by LTL 42 Mio (EUR 12.2 Mio) than not audited sales of the year 2011 are. The company will earn profit before taxes of LTL 4.6 Mio (EUR 1.3 Mio) which will be by LTL 0.2 Mio (EUR 0.1 Mio) 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 fiber 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 are not audited.

On October 06, 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 the 18<sup>th</sup> of 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 fulfillment in time.



GRIGISKES AB will continue implementing Word Class maintenance in subsidiaries to fulfill the ambition to reach high quality services, flexibility execution of client orders and become an important player in the market.

The Annual General Shareholders Meeting of Grigiskes AB, legal entity code 110012450, registered office: Vilniaus g. 10, Grigiškės, LT-27101, Vilniaus m. sav. (hereinafter- Company), is convened by initiative and the decision of the Board.

The Date of the Meeting – the 25th of April, 2012, Wednesday.

Time – 11 a.m., place - Vilniaus g. 10, Grigiškės, Vilniaus m. sav., 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.

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

**April** The Board meeting of GRIGISKES AB on 11<sup>th</sup> of April 2012 decided to provide Annual General Meeting of Shareholders of GRIGISKES AB to be held on 25<sup>th</sup> of 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<sup>th</sup> of April, 2012 proposed by the Board, the general ballot paper.

**April** Over the year 2011 the turnover of GRIGISKES AB outmeasured LTL 159,3 Mio (EUR 46,1 Mio) and by LTL 14,3 Mio (EUR 4,1 Mio) 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, Klaipedos kartonas AB, Mena Pak OAO and company engaged in the waste paper business of Klaipeda recycling UAB, outmeasured LTL 307,7 Mio (EUR 89,1 Mio). It is by LTL 7,7 Mio (EUR 2,2 Mio) or 2,6 % above proclaimed forecasted turnover for 2011.

Over the year 2011 audited profit before taxes of the GRIGISKES AB reached LTL 13,5 Mio (EUR 3,9 Mio) and was by LTL 8,7 Mio (EUR 2,5 Mio) 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 5,8 Mio (EUR 1,7 Mio).

After the effect of asset revaluation is eliminated, the Company's audited profit before taxes is LTL 7.7 Mio (EUR 2.2 Mio).

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

The Group's audited consolidated profit before taxes is by LTL 6,7 Mio (EUR 1,9 Mio) 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 tantiems 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 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 GRIGIŠKES 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 successful 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.).

### 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 2012.

### 13.4. Risk factors

Information about financial risk management is provided in notes of annual audited consolidated statements of 2011. There are no material changes in financial risk management during three months of year 2012.

## 13.5. Suppliers

13.5.1 table. Countries of suppliers' of main raw materials and materials for the Company over the three months of the year

Supplier's country	2012	2011
	%	%
Lithuania	58	75
Switzerland	20	2
Italy	13	6
Finland	4	2
Estonia	2	5
Poland	1	4
Latvia	1	2
Other countries	1	4
<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:

13.6.1. table. Segments of the Group over the three months of the year 2012

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard, and related production	Unallocated	TOTAL
Sales	16.023.694	14.939.010	35.832.869	5.893.107	<b>72.688.680</b>
Cost of sales	(12.503.058)	(12.679.278)	(33.198.976)	(5.420.396)	<b>(63.801.708)</b>
Gross profit	<b>3.520.636</b>	<b>2.259.732</b>	<b>2.633.893</b>	<b>472.711</b>	<b>8.886.972</b>
Depreciation and amortization	1.509.206	1.044.291	1.879.541	1.199.871	<b>5.632.909</b>
Segment property, plant and equipment and intangible assets	40.014.106	29.780.287	78.467.861	37.063.174	<b>185.325.428</b>
Segment capital expenditure	3.019.837	219.896	6.174.587	240.854	<b>9.655.174</b>

13.6.2. table. Segments of the Company over the three months of the year 2012.

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard, and related production	Unallocated	TOTAL
Sales	16.023.694	-	3.699.908	5.893.107	<b>25.616.709</b>
Cost of sales	(12.503.058)	-	(3.099.916)	(5.420.396)	<b>(21.023.370)</b>
Gross profit	<b>3.520.636</b>	-	<b>599.992</b>	<b>472.711</b>	<b>4.593.339</b>
Depreciation and amortization	1.509.206	-	150.128	1.199.871	<b>2.859.205</b>
Segment property, plant and equipment and intangible assets	40.014.106	-	20.312.362	37.063.174	<b>97.389.642</b>
Segment capital expenditure	3.019.837	-	5.751.722	240.854	<b>9.012.413</b>

13.6.3. table. Segments of the Group over the three months of the year 2011

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard, and related production	Unallocated	TOTAL
Sales	19.689.224	18.242.549	35.027.782	3.670.042	<b>76.629.597</b>
Cost of sales	(17.580.736)	(16.384.545)	(30.186.429)	(3.295.440)	<b>(67.447.150)</b>
Gross profit	<b>2.108.488</b>	<b>1.858.004</b>	<b>4.841.353</b>	<b>374.602</b>	<b>9.182.447</b>
Depreciation and amortization	1.487.905	1.388.182	1.905.368	770.086	<b>5.551.541</b>
Segment property, plant and equipment and intangible assets	59.072.542	32.128.104	61.626.018	20.039.617	<b>172.866.281</b>
Segment capital expenditure	3.610.494	134.347	1.596.765	330.681	<b>5.672.287</b>

13.6.4. table. Segments of the Company over the three months of the year 2011

	Paper and paper products	Hardboard and wood products	Raw material for corrugated cardboard, and related production	Unallocated	TOTAL
Sales	19.689.224	14.851.046	3.710.797	3.670.042	<b>41.921.109</b>
Cost of sales	(17.580.736)	(13.214.082)	(3.297.078)	(3.506.312)	<b>(37.598.208)</b>
Gross profit	<b>2.108.488</b>	<b>1.636.964</b>	<b>413.719</b>	<b>163.730</b>	<b>4.322.901</b>
Depreciation and amortization	1.487.905	1.007.862	165.724	770.086	<b>3.431.577</b>
Segment property, plant and equipment and intangible assets	59.072.542	22.206.321	907.436	20.039.617	<b>102.225.916</b>
Segment capital expenditure	3.610.494	14.364	53.783	330.681	<b>4.009.322</b>

13.6.5. table. Company's countries of sales

Country	Group				Company			
	three months of 2012		three months of 2011		three months of 2012		three months of 2011	
	thousand litas	%	thousand litas	%	thousand litas	%	thousand litas	%
Lithuania	17.700	24,4	25.079	32,7	15.818	61,7	16.083	38,4
Poland	13.659	18,8	12.784	16,7	454	1,8	454	1,1
Ukraine	8.636	11,9	7.798	10,2	0	0	0	0
Latvia	6.431	8,8	5.700	7,4	2.609	10,2	2.609	6,2
The Netherlands	6.029	8,3	721	0,9	0	0	0	0
Estonia	3.542	4,9	3.255	4,2	1.611	6,3	1.611	3,8
Sweden	3.036	4,2	2.539	3,3	1.001	3,9	1.001	2,4
Denmark	2.658	3,7	2.010	2,6	2.143	8,4	2.143	5,1
Belarus	2051	2,8	1.923	2,5	268	1	268	0,6
Finland	1.297	1,8	666	0,9	166	0,6	166	0,4
Czech Republic	1.269	1,7	3.234	4,2	83	0,3	83	0,2
France	1.130	1,6	666	0,9	0	0	0	0
Germany	886	1,2	369	0,5	0	0	0	0
Slovakia	827	1,1	1315	1,7	601	2,3	601	1,4
Russia	779	1,1	4.697	6,1	0	0	0	0
Other countries	2.758	3,7	3.874	5,2	863	3,5	16.902	40,4
<b>Total</b>	<b>72.688</b>	<b>100</b>	<b>76.630</b>	<b>100</b>	<b>25.617</b>	<b>100</b>	<b>41.921</b>	<b>100</b>

### 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, Klaipėdos kartonas AB, Klaipėda Recycling UAB and Mena Pak OAO in the year 2012 will reach a turnover of LTL 322 Mio. (EUR 93.3 Mio), which is by LTL 14.3 Mio (EUR 4.1 Mio) or 4.4% over the audited consolidated turnover of the year 2011. The Group's profit before taxes will reach LTL 15 Mio (EUR 4.3 Mio) and will be by LTL 2.9 Mio (EUR 0.8 Mio) or 19.3% higher than audited consolidated profit before taxes of the year 2011 is.

It is also planned that GRIGISKES AB in the year 2012 will reach a turnover of LTL 117 Mio (EUR 33.9 Mio) and will be less by LTL 42.3 Mio (EUR 12.3 Mio) than audited sales of the year 2011 are. The company will earn profit before taxes of LTL 4.6 Mio (EUR 1.3 Mio).

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 fiber 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 LTL 42.3 Mio (EUR 12.3 Mio) and profit before taxes by LTL 3.0 Mio (EUR 0.9 Mio) for the year 2012 compared to audited results of the year 2011, including the elimination of the impact of valuation of property.

## 13.8. Financial indicators

Financial ratios	three months of 2010, audited		three months of 2011, not audited		three months of 2012, not audited	
	Group	Company	Group	Company	Group	Company
EBITDA	5.076.744	3.764.721	9.205.228	4.146.368	6.849.612	4.635.688
EBITDA profitability	12,6%	12,8%	12,0%	9,9%	9,4%	18,1%
Gross margin	10,2%	10,4%	12,0%	10,3%	13,1%	17,9%
Operating margin	1,6%	0,7%	4,8%	1,7%	2,0%	7,9%
Net margin	0,6%	0,1%	1,7%	0,9%	1,4%	8,0%
ROE, %	0,3%	0,0%	1,5%	0,4%	1,1%	2,4%
ROA, %	0,1%	0,0%	0,5%	0,2%	0,4%	1,3%
Current ratio	0,75	0,93	0,90	0,84	0,90	0,71
Quick ratio	0,50	0,65	0,58	0,57	0,60	0,51
Cash to current liabilities	0,038	0,013	0,019	0,013	0,034	0,006
P/E	329,36	2.896,35	131,00	480,16	121,168	57,879
Earnings per share	0,004	0,000	0,022	0,0060	0,016	0,0344
Debt to equity ration	2,11	0,75	1,65	0,79	1,45	0,57
Debt to total assets ratio	0,68	0,43	0,60	0,41	0,57	0,34

## 13.9. Related party transactions

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

AB „Klaipėdos kartonas“ – subsidiary of Grigiškės AB.

Baltwood UAB – subsidiary of Grigiškės AB.

Mena Pak OAO – subsidiary of Grigiškės AB.

AGR Prekyba UAB – subsidiary of Grigiškės AB.

Ginvildos Investicija UAB – major shareholders of Grigiškės 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 the group not subject to consolidation.

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

13.9.1. table. Group's transactions with related persons over the three months of 2012. Balances of amounts receivable/payable in relation thereto on the 31<sup>st</sup> of March 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	29.400		24.140
Didma UAB	436	41.867		
Naras UAB				
Naujieji Verkiai UAB	3.872		1.236	
<b>Total</b>	<b>4.340</b>	<b>71.267</b>	<b>1.236</b>	<b>24.140</b>



13.9.2. table. Company's transactions with related persons over the three months of 2012. Balances of amounts receivable/payable in relation thereto on the 31<sup>st</sup> of March 2012 (LTL)

	Sales of goods and services	Acquisition of goods and services	Receivable from related persons	Amounts payable to related persons
Baltwood UAB	5.796.330	2.640.285	3.803.842	
Ginvildos Investicija UAB	32	29.400		24.140
Didma UAB	436	41.867		
Naras UAB				
Klaipėdos kartonas AB	34.989	2.386.919	34.159	1.974.113
Naujieji Verkiai UAB	3.872		1.236	
<b>Total</b>	<b>5.835.659</b>	<b>5.098.471</b>	<b>3.839.237</b>	<b>1.998.253</b>

## 14. FINANCIAL INFORMATION

### 14.1. Balance sheet

LTL

	Notes	The Group		The Company	
		31.03.2012	31.12.2011	31.03.2012	31.12.2011
<b>ASSETS</b>					
<b>Non-current assets:</b>					
Property, plant and equipment	14.7.	176.421.123	172.578.689	92.468.297	86.295.419
Investment property	14.8.	4.666.239	4.722.791	4.666.239	4.722.791
Intangible assets	14.9.	14.600.167	14.670.357	255.106	218.649
Investments in subsidiaries	14.10			37.950.923	37.950.923
Other accounts receivables		51.298	51.298	1.701.303	1.701.303
<b>TOTAL NON CURRENT ASSETS</b>		<b>195.738.827</b>	<b>192.023.135</b>	<b>137.041.868</b>	<b>130.889.085</b>
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	14.12	2.090.776	2.134.809	180.662	71.238
Loans granted		-	-	-	-
Trade and other accounts receivables	14.11	34.056.947	30.452.543	13.875.471	14.029.967
Inventories	14.13	18.808.636	24.538.379	5.447.288	5.580.809
Prepayments and deferred expenses		807.266	1.046.261	368.929	365.015
<b>TOTAL CURRENT ASSETS</b>		<b>55.763.625</b>	<b>58.171.992</b>	<b>19.872.350</b>	<b>20.047.029</b>
<b>TOTAL ASSETS</b>		<b>251.502.452</b>	<b>250.195.127</b>	<b>156.914.218</b>	<b>150.936.114</b>
<b>EQUITY AND LIABILITIES</b>					
<b>CAPITAL AND RESERVES:</b>					
Share capital	14.14	60.000.000	60.000.000	60.000.000	60.000.000
Legal reserve		4.221.919	4.221.919	4.221.919	4.221.919
Foreign currency translation reserve		(248.806)	(59.777)		
Retained earnings		32.402.117	31.356.702	30.283.204	28.221.313
Non controlling interest		2.917.359	2.977.858		
<b>TOTAL EQUITY</b>		<b>99.292.589</b>	<b>98.496.702</b>	<b>94.505.123</b>	<b>92.443.232</b>
<b>GRANTS</b>		<b>8.483.412</b>	<b>8.732.291</b>	<b>8.483.412</b>	<b>8.732.291</b>
<b>NON-CURRENT LIABILITIES:</b>					
Bank loans and mortgages	14.15	74.890.850	69.533.156	21.607.687	16.249.993
Obligations under finance leases		4.258.492	4.052.409	3.729.862	3.626.050
Deferred tax liability		1.761.028	1.790.088	393.085	417.613
Non-current employee benefits		789.363	789.363	170.095	170.095
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>81.699.733</b>	<b>76.165.016</b>	<b>25.900.729</b>	<b>20.463.751</b>
<b>CURRENT LIABILITIES:</b>					
Bank loans and mortgages	14.15	19.058.085	20.160.668	10.704.119	9.637.793
Obligations under finance leases		2.820.366	3.752.086	2.206.451	2.936.417
Income tax payable		291.531	130.781	205.219	82.688
Trade and other accounts payable	14.16	39.856.736	42.757.583	14.909.165	16.639.942
<b>TOTAL CURRENT LIABILITIES</b>		<b>62.026.718</b>	<b>66.801.118</b>	<b>28.024.954</b>	<b>29.296.840</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>251.502.452</b>	<b>250.195.127</b>	<b>156.914.218</b>	<b>150.936.114</b>

## 14.2. Income (loss) statement

LTL

	note s	The Group		The Company	
		January – March 2012	January – March 2011	January – March 2012	January – March 2011
Sales		72.688.680	76.629.597	25.616.709	41.921.109
Continuing op.		-	-	25.616.709	27.070.063
Discontinued op.		-	-	-	14.851.046
Cost of sales		63.184.894	67.447.150	21.023.370	37.598.208
Continuing op.		-	-	21.023.370	24.384.126
Discontinued op.		-	-	-	13.214.082
<b>Gross profit</b>		<b>9.503.786</b>	<b>9.182.447</b>	<b>4.593.339</b>	<b>4.322.901</b>
Other operating income	14.16.	387.639	388.300	348.905	313.712
Continuing op.		-	-	-	313.712
Selling and distribution		5.043.901	3.078.975	1.417.606	2.638.055
Continuing op.		-	-	1.417.606	1.611.161
Discontinued op.		-	-	-	1.026.894
Administrative expenses		3.240.774	2.427.729	1.377.140	1.238.498
Continuing op.		-	-	1.377.140	904.725
Discontinued op.		-	-	-	333.773
Other operating expenses	14.17.	141.168	410.356	122.136	43.797
Continuing op.		-	-	122.136	43.797
<b>Profit from operations</b>		<b>1.465.582</b>	<b>3.653.687</b>	<b>2.025.362</b>	<b>716.263</b>
Other finance income		469.975	468	481.640	1.849
Continuing op.		-	-	481.640	1849
Discontinued op.		-	-	-	-
Other finance expenses		761.927	2.055.393	304.639	279.127
Continuing op.		-	-	304.639	184.129
Discontinued op.		-	-	-	94.998
<b>Profit before income tax</b>		<b>1.173.630</b>	<b>1.598.762</b>	<b>2.202.363</b>	<b>438.985</b>
Income tax expense		188.714	278.276	140.472	78.732
Continuing op.		-	-	140.472	78.732
Discontinued op.		-	-	-	-
<b>NET PROFIT</b>		<b>984.916</b>	<b>1.320.486</b>	<b>2.061.891</b>	<b>360.253</b>
Continuing op.		-	-	2.061.891	178.954
Discontinued op.		-	-	-	181.299

	note s	The Group		The Company	
		January – March 2012	January – March 2011	January – March 2012	January – March 2011
<b>Other comprehensive</b>					
Exchange differences on translation of		(189.029)	(403.339)	0	0
<b>Total comprehensive income for the</b>		<b>795.887</b>	<b>1.717.436</b>	<b>2.061.891</b>	<b>360.253</b>
<b>Profit attributable to:</b>					
Group's interest		1.045.415	1.279.819	2.061.891	360.253
Non controlling interest		(60.499)	40.667	0	0
<b>Total of attributable profit</b>		<b>984.916</b>	<b>1.320.486</b>	<b>2.061.891</b>	<b>360.253</b>
<b>Comprehensive income attributable to:</b>					
Group's interest		856.386	876.480	2.061.891	360.253
Non controlling interest		(60.499)	840.956	0	0
<b>Total attributable comprehensive</b>		<b>795.887</b>	<b>1.717.436</b>	<b>2.061.891</b>	<b>360.253</b>
<b>Basic and diluted earnings per share</b>		0,016	0,022	0,034	0,006

## 14.3. Statement of changes in owner's equity

LTL

The Group	Notes	Share capital	Legal reserve	Rate of exchange influence	Non controlling interest	Retained earnings	Total
<b>31 December 2010</b>		60.000.000	4.145.934	(53.388)	2.822.509	20.273.624	87.188.679
Other comprehensive income (expenses)				(403.339)			(403.339)
Net profit					40.667	1.279.819	1.320.486
<b>31 March 2011</b>		60.000.000	4.145.934	(456.727)	2.863.176	21.553.443	88.105.826
Transfer to legal reserve			75.985			(75.985)	
Other comprehensive income (expenses)				396.950			396.950
Dividends paid					(269.844)	(1.200.000)	(1.469.844)
Minority sales					295.551	(295.551)	
Net profit					88.975	11.374.795	11.463.770
<b>31 December 2011</b>		60.000.000	4.221.919	(59.777)	2.977.858	31.356.702	98.496.702
Transfer to legal reserve							
Other comprehensive income (expenses)				(189.029)			(189.029)
Dividends paid							
Net profit					(60.499)	1.045.415	984.916
<b>31 March 2012</b>		60.000.000	4.221.919	(248.806)	2.917.359	32.402.117	99.292.589

LTL

The Company	Notes	Share capital	Legal reserve	Other reserves	Rate of exchange influence	Retained earnings	Total
<b>31 December 2010</b>		60.000.000	4.145.934			15.962.278	80.108.212
Transfer to legal reserve							
Dividends paid							
Net profit						360.253	360.253
<b>31 March 2011</b>		60.000.000	4.145.934			16.322.531	80.468.465
Transfer to legal reserve			75.985			(75.985)	
Dividends paid						(1.200.000)	(1.200.000)
Net profit						13.174.767	13.174.767
<b>31 December 2011</b>		60.000.000	4.221.919			28.221.313	92.443.232
Transfer to legal reserve							
Dividends paid							
Net profit						2.061.891	2.061.891
<b>31 March 2012</b>		60.000.000	4.221.919			30.283.204	94.505.123

## 14.4. Cash flow statement

LTL

	The Group		The Company	
	31.03.2012	31.03.2011	31.03.2012	31.03.2011
<b>OPERATING ACTIVITIES</b>				
Profit before income tax	1.173.630	1.598.762	2.202.363	438.985
Adjustments for:				
Depreciation and amortization	5.384.030	5.551.541	2.610.326	3.430.105
Elimination of financial activity results	(361.652)	2.054.925	(177.001)	277.278
Loss (profit) on disposal of fixed assets	(5.598)	(90.040)	(5.598)	(87.911)
Loss (profit) on disposal of emission rights				
Provisions (reversal) for slow moving inventory, write off to net realisable value and low value inventory				
Provision for doubtful accounts receivable (reversal), write off of bad accounts receivables				
Property, plant and equipment impairment losses (reversal)		(530.965)		(530.965)
<b>TOTAL</b>	<b>6.190.410</b>	<b>8.584.223</b>	<b>4.630.090</b>	<b>3.527.492</b>
Changes in current assets and liabilities:		(370.053)		
(Increase) decrease in other assets	238.995	(129.463)	(3.914)	(516.942)
Decrease (increase) in trade and other accounts receivables	(3.604.404)	(3.723.080)	154.496	(1.535.575)
Decrease (increase) in inventories	5.729.798	(1.925.593)	133.544	(505.538)
Increase (decrease) in trade and other accounts payable	(2.009.646)	(119.370)	(1.407.203)	(2.431.763)
<b>TOTAL</b>	<b>354.743</b>	<b>(6.267.559)</b>	<b>(1.123.077)</b>	<b>(4.989.818)</b>
Interest paid	(755.475)	(652.885)	(299.639)	(250.537)
Income tax paid	(42.469)	(250.000)	(42.469)	
<b>NET cash from operating activities</b>	<b>5.747.209</b>	<b>1.413.779</b>	<b>3.164.905</b>	<b>(1.712.863)</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of noncurrent assets and intangible assets	(9.328.923)	(4.975.954)	(8.859.422)	(4.057.974)
Transference of noncurrent assets and intangible assets to a subsidiary				
(Acquisition) of investments in subsidiaries (net of cash acquired in the Group)				(10.000.000)
Proceeds on disposal noncurrent assets	6.000	163.705	6.000	163.705
Grants and subsidies received		647.681		647.681
Proceeds on disposal of emission rights				
Interest received	2.207	1.282	75	2.662
Repayment of loans granted				10.000.000
<b>Net cash (used in) investing activities</b>	<b>(9.320.716)</b>	<b>(4.163.286)</b>	<b>(8.853.347)</b>	<b>(3.243.926)</b>
<b>FINANCING ACTIVITIES</b>				
Dividends paid				
Repayments of loans and mortgages	(2.756.164)	(3.682.066)	(587.255)	(1.465.335)
Proceeds from loans and mortgages	7.011.275	7.263.580	7.011.275	7.263.580
Transference of proceeds from loans and mortgages to a subsidiary				
Repayments of finance lease liabilities	(725.637)	(964.668)	(626.154)	(699.716)
Transference of repayments of finance lease liabilities to a subsidiary				
<b>Net cash (used in) financing activities</b>	<b>3.529.474</b>	<b>2.616.846</b>	<b>5.797.866</b>	<b>5.098.529</b>
<b>Net (decrease)/increase in cash</b>	<b>(44.033)</b>	<b>(132.661)</b>	<b>109.424</b>	<b>141.740</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD</b>	<b>2.134.809</b>	<b>1.378.635</b>	<b>71.238</b>	<b>361.192</b>
<b>CASH AND CASH EQUIVALENTS END OF THE PERIOD</b>	<b>2.090.776</b>	<b>1.245.974</b>	<b>180.662</b>	<b>502.932</b>

#### 14.5. Basis of preparation

##### **General information - Changes in the Group**

In 2011 AB Grigiškės established a subsidiary UAB Grigiškių energija half of which was sold to third parties in the same year. The Company retained control over subsidiary as the management of the subsidiary was assigned by the Company. The company did not perform any operations in 2011. In order to increase efficiency of manufacturing processes of the Company, to optimize the acquisition of raw materials, production supplies, production and logistics processes, to reduce costs and increase profitability of business segments, on the 1 December 2011 the Board of AB Grigiškės decided to transfer one of segments of AB Grigiškės activities – the production of wood fibre board – to 100% owned subsidiary UAB Baltwood, in exchange for newly issued shares of the subsidiary. Along with the activity transferred AB Grigiškės passed the property, rights and obligations relating to processing of the wood fibre boards, including but not limited to, real estate and equipment needed the activities to conduct, commitment to employees and other rights and obligations arising from existing agreements.

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

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

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

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

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

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

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

### Statement of compliance

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

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

#### IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively <sup>1</sup>.

#### Improvements to IFRSs

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

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

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

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

- IFRS 1 First-time adoption
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments - Disclosures
- IAS 27 Consolidated and Separate Financial Statements



- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

### **Standards issued but not yet effective**

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

#### **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income**

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

#### **IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets**

The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

#### **IAS 19 Employee Benefits (Amended)**

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

#### **IAS 27 Separate Financial Statements (Revised)**

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

#### **IAS 28 Investments in Associates and Joint Ventures (Revised)**

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

### **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

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

### **IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements**

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognised assets. The amendment has only disclosure effects. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

### **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**

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

### **IFRS 9 Financial Instruments - Classification and Measurement**

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

### **IFRS 10 Consolidated Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12

Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

#### **IFRS 11 Joint Arrangements**

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

#### **IFRS 12 Disclosures of Involvement with Other Entities**

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

#### **IFRS 13 Fair Value Measurement**

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

#### **IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine**

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

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

#### 14.6. Significant accounting policies

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.

#### **Business combinations and goodwill**

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units (refer to note 2.23 Impairment of non-financial assets).

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

### **Measurement and presentation currency**

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

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

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

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

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

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

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

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

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

### **Intangible assets other than goodwill**

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

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

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

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

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

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

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

### **Property, plant and equipment**

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

Till 31 December 2010, buildings were accounted as follows:

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

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

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

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

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

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

Replacement value (cost) method is based on an assumption that a knowledgeable buyer will not pay for the same substitute property more than the amount necessary to create such property. This approach is particularly applicable when the subject property is related with relatively new buildings/constructions that reflect the highest or best use of the land lot or when the buildings/constructions on the land lot are relatively unique or specialized and the market has a

limited supply of comparable properties. The replacement value of buildings/constructions is determined on the basis of typical sources, first of all details supplies by local professional construction companies and accepted national price-fixing measures. In some cases, the application of this approach is based on the construction cost of the subject property and information about the construction costs of similar buildings, less the accrued depreciation amount calculated with reference to data obtained from all sources.

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

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

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

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

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

### **Investment property**

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

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

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

### **Emission rights**

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

The scheme works on a 'Cap and Trade' basis. EU Member States' governments are required to set an emission cap for each phase for all 'installations' covered by the Scheme; this cap is established in the National Allocation Plan (NAP), which is issued by the relevant authority in each Member State. The NAP describes the amount of yearly emissions (measured in tones of carbon dioxide equivalents) permitted per installation for each phase for which allowances will be allocated on an annual basis.

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

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

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

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

#### **Financial assets**

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

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

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

The Group and the Company does not have any financial instruments at fair value through profit or loss as at 31 December 2011 and 2010.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group / the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process. The Group and the Company does not have any held-to-maturity investments as at 31 December 2011 and 2010.



### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account<sup>1</sup> for measurement of impairment losses. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

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

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

The Group and the Company does not have any available for sale financial assets as at 31 December 2011 and 2010.

### **Offsetting financial assets and financial liabilities**

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

### **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.

### **Inventories**

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

### **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.

### **Borrowings**

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

The Group and the Company capitalise borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no significant borrowing costs matching the capitalisation criteria in 2011 and in 2010.

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

### **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.

#### **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.

#### **Non-current employee benefits**

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

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

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

#### **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.

### **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.

### **Trade and other payable**

Trade payables are initially measured at fair value and are subsequently measured at amortized cost, using the effective interest rate method. The nominal or cost value of the other payables is assumed to appropriate their fair value.

### **Income tax**

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

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

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

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

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

## **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.

## **Impairment of assets**

### **Financial assets**

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

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

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

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

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

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

## **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<sup>1</sup>, amortization<sup>1</sup>, valuation of buildings<sup>1</sup>, non-current employee benefits<sup>1</sup>, impairment evaluation of goodwill<sup>1</sup>, deferred tax asset<sup>1</sup> and other assets<sup>1</sup>. 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.

## **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.

## **Comparative information**

Where necessary comparative figures have been adjusted to conform to changes in presentation in the current year. Therefore, amounts of property, plant and equipment and intangible assets were amended by including goodwill and investment property<sup>1</sup>, comparative figures of Statement of Cash flows and certain risk management notes were changed to conform with current year presentation.

## **Discontinued (transferred) operations**

Current year and comparative year revenue, expenses and result after taxes is presented in two lines in Company's statement of comprehensive income, separately disclosing revenue, expenses and results after taxes of transferred (discontinued) and continuing operations<sup>4</sup>.

## **Subsequent events**

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

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<sup>1</sup> For more information look the annual audited statements

## 14.7. Noncurrent assets

On the 31<sup>st</sup> of March 2012 Group's noncurrent assets consisted of the following, LTL

The Group	Buildings and constructions	Machinery and Equipment	Vehicles	Other assets	Construction in progress and prepayments	Total
<b>Modified cost</b>						
31 December 2011	80.103.033	172.044.909	5.766.950	4.324.548	16.036.077	278.275.517
Additions	280.925	203.225	287.240	208.329	8.589.418	9.569.137
Disposals		(36.530)	(28.814)	(84.262)		(149.606)
Transfers	358.141	850.982		18.638	(1.227.761)	
Rate of exchange influence	(164.667)	(83.342)	(2.213)	(55.592)		(305.814)
<b>31 March 2012</b>	<b>80.577.432</b>	<b>172.979.244</b>	<b>6.023.163</b>	<b>4.411.661</b>	<b>23.397.734</b>	<b>287.389.234</b>
<b>Accumulated depreciation and impairment</b>						
31 December 2011	8.873.022	90.085.685	3.920.157	2.817.964		105.696.828
Depreciation	900.892	4.222.276	134.441	162.823		5.420.432
Impairment loss (reversal)						
Disposals		(36.489)	(28.412)	(84.248)		(149.149)
Transfers						
Rate of exchange influence						
<b>31 March 2012</b>	<b>9.773.914</b>	<b>94.271.472</b>	<b>4.026.186</b>	<b>2.896.539</b>		<b>110.968.111</b>
<b>Carrying amount</b>						
31 December 2011	71.230.011	81.959.224	1.846.793	1.506.584	16.036.077	172.578.689
<b>31 March 2012</b>	<b>70.803.518</b>	<b>78.707.772</b>	<b>1.996.977</b>	<b>1.515.122</b>	<b>23.397.734</b>	<b>176.421.123</b>

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

On the 31<sup>st</sup> of March 2012, the part of the Group's property, plant and equipment with a carrying value of 79.124 thousand Litass (31 December 2011 – 68.466 thousand Litass) is pledged as a security for repayment of the loans granted by banks.

On the 31<sup>st</sup> of March 2012 Company's noncurrent assets consisted of the following, LTL

The Company	Buildings and constructions	Machinery and Equipment	Vehicles	Other assets	Construction in progress and prepayments	Total
<b>Modified cost</b>						
31 December 2011	20.320.010	102.043.996	1.998.677	2.307.655	15.696.750	142.367.088
Additions	265.000	7.991	148.751	32.020	8.502.202	8.955.964
Disposals		(31.348)	(28.814)	(28.283)		(88.445)
Transfers		850.982		18.638	(869.620)	
<b>31 March 2012</b>	<b>20.585.010</b>	<b>102.871.621</b>	<b>2.118.614</b>	<b>2.330.030</b>	<b>23.329.332</b>	<b>151.234.607</b>
<b>Accumulated depreciation and impairment</b>						
31 December 2011	3.157.501	49.885.670	1.203.696	1.824.802		56.071.669
Depreciation	283.378	2.365.249	71.590	62.444		2.782.661
Impairment loss (reversal)						
Disposals		(31.339)	(28.412)	(28.269)		(88.020)
Transfers						
<b>31 March 2012</b>	<b>3.440.879</b>	<b>52.219.580</b>	<b>1.246.874</b>	<b>1.858.977</b>		<b>58.766.310</b>
<b>Carrying amount</b>						
31 December 2011	17.162.509	52.158.326	794.981	482.853	15.696.750	86.295.419
<b>31 March 2012</b>	<b>17.144.131</b>	<b>50.652.041</b>	<b>871.740</b>	<b>471.053</b>	<b>23.329.332</b>	<b>92.468.297</b>

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

On the 31<sup>st</sup> of March 2012, the part of the Company's property, plant and equipment with a carrying value of 16.843 thousand Litass (31 December 2011 – 17.118 thousand Litass) is pledged as a security for repayment of the loans granted by banks.

#### 14.8. Investment property

On the 31<sup>st</sup> of March 2012 Group's and Company's investment property consisted of the following, LTL:

Group / Company	Buildings and constructions	Total
<b>Modified cost</b>		
31 December 2011	4.949.000	4.949.000
Additions		
Disposals		
Transfers		
<b>31 March 2012</b>	<b>4.949.000</b>	<b>4.949.000</b>
<b>Accumulated depreciation and impairment</b>		
31 December 2011	226.209	226.209
Depreciation	56.552	56.552
Impairment loss (reversal)		
Transfers		
<b>31 March 2012</b>	<b>282.761</b>	<b>282.761</b>
<b>Carrying amount</b>		
31 December 2011	4.722.791	4.722.791
<b>31 March 2012</b>	<b>4.666.239</b>	<b>4.666.239</b>



## 14.9. Intangible assets

On the 31<sup>st</sup> of March 2012 Group's intangible assets consisted of the following, LTL:

The Group	Land lease rights	Licenses, patents	Software	Prestige	Other assets and prepayments	Total
<b>Cost</b>						
31 December 2011	2.400.000	60.788	1.229.51	10.362.10	1.762.723	15.815.131
Additions			41.381		44.656	86.037
Disposals						
Transfers						
Reappraisal			(302)			(302)
<b>31 March 2012</b>	<b>2.400.000</b>	<b>60.788</b>	<b>1.270.59</b>	<b>10.362.10</b>	<b>1.807.379</b>	<b>15.900.866</b>
<b>Accumulated amortization</b>						
31 December 2011	222.222	60.767	849.333		12.452	1.144.774
Amortization	6.667		37.879		111.379	155.925
Impairment loss/ (reversal)						
Transfers						
<b>31 March 2012</b>	<b>228.889</b>	<b>60.767</b>	<b>887.212</b>		<b>123.831</b>	<b>1.300.699</b>
<b>Carrying amount</b>						
31 December 2011	2.177.778	21	380.185	10.362.10	1.750.272	14.670.357
<b>31 March 2012</b>	<b>2.171.111</b>	<b>21</b>	<b>383.386</b>	<b>10.362.10</b>	<b>1.683.548</b>	<b>14.600.167</b>

On the 31<sup>st</sup> of March 2012, the Group's land lease rights with a carrying value of 2.171 thousand Litass (31 December 2011 – 2.178 thousand Litass) are pledged as a security for repayment of the loan granted by banks.

On the 31<sup>st</sup> of March 2012, Company's intangible assets consisted of the following, LTL:

The Company	Licenses and patents	Software	Other assets	Total
<b>Cost</b>				
31 December 2011	60.788	994.198	32.731	1.087.717
Additions		11.793	44.656	56.449
Disposals				
Transfer of a part of business				
Transfers				
<b>31 March 2012</b>	<b>60.788</b>	<b>1.005.991</b>	<b>77.387</b>	<b>1.144.166</b>
<b>Accumulated amortization</b>				
31 December 2011	60.767	795.850	12.451	869.068
Amortization		19.061	931	19.992
Impairment loss/ (reversal)				
Disposals				
Transfers				
<b>31 March 2012</b>	<b>60.767</b>	<b>814.911</b>	<b>13.382</b>	<b>889.060</b>
<b>Carrying amount</b>				
31 December 2011	21	198.348	20.280	218.649
<b>31 March 2012</b>	<b>21</b>	<b>191.080</b>	<b>64.005</b>	<b>255.106</b>

Amortization expenses have been included in administrative expenses.

#### 14.10. Investments in subsidiaries

On the 31<sup>st</sup> of March 2012 investments in subsidiaries consisted of the following, LTL:

	The Company	
	31.03.2012	31.12.2011
Grigiškių energija UAB	5.000	5.000
Ekotara UAB	10.000	10.000
AGR Prekyba UAB	10.343.923	10.343.923
Baltwood UAB	27.592.000	27.592.000
<b>Total investments in subsidiaries</b>	<b>37.950.923</b>	<b>37.950.923</b>

On December 31, 2011 Grigiškės AB and Baltwood UAB signed an agreement of transferring of the part of activities. Under this agreement Grigiškės AB transferred one of segments of Grigiškės AB activities – the production of wood fiber board – to 100% owned subsidiary Baltwood UAB, in exchange for newly issued shares of the subsidiary. After that the investments of Grigiškės AB in subsidiary Baltwood UAB increased by 22.587.000 LTL, up to 27.592.000 LTL. For more information read chapters 13.1 „Material events in the Issuer’s activities“ and 13.2 „Newest events in the Issuer’s activities“ of this interim information.

#### 14.11. Trade and other receivables

On the 31<sup>st</sup> of March 2012 trade and other receivables consisted of the following, LTL:

	The Group		The Company	
	31.03.2012	31.12.2011	31.03.2012	31.12.2011
Trades receivable	29.090.338	27.018.143	12.902.396	13.169.055
Other receivable	5.662.613	4.130.404	1.127.188	1.015.025
	<b>34.752.951</b>	<b>31.148.547</b>	<b>14.029.584</b>	<b>14.184.080</b>
Less: allowance for doubtful amounts receivable	(696.004)	(696.004)	(154.113)	(154.113)
<b>Total amounts receivable within one year:</b>	<b>34.056.947</b>	<b>30.452.543</b>	<b>13.875.471</b>	<b>14.029.967</b>

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

The movement for 2012 in the allowance for doubtful amounts receivable consisted of the following, LTL:

	The Group		The Company	
	31.03.2012	31.12.2011	31.03.2012	31.12.2011
<b>On the 1<sup>st</sup> of January</b>	<b>696.004</b>	<b>696.004</b>	<b>154.113</b>	<b>154.113</b>
Change for the year				
Reversal of allowance				
<b>At the end of the period</b>	<b>696.004</b>	<b>696.004</b>	<b>154.113</b>	<b>154.113</b>

## 14.12. Cash and cash equivalents

On the 31<sup>st</sup> of March 2012 cash and cash equivalents consisted of the following:

	The Group		The Company	
	31.03.2012	31.12.2011	31.03.2012	31.12.2011
Cash at bank	2.064.699	2.097.059	165.306	43.517
Cash on hand	26.077	37.749	15.356	27.721
<b>Total</b>	<b>2.090.776</b>	<b>2.134.808</b>	<b>180.662</b>	<b>71.238</b>

## 14.13. Inventories

On the 31<sup>st</sup> of March 2012 inventories consisted of the following:

	The Group		The Company	
	31.03.2012	31.12.2011	31.03.2012	31.12.2011
Materials	8.147.940	9.755.741	2.658.790	2.687.331
Work in progress	4.682.016	5.093.332	1.647.105	1.757.314
Finished goods	7.412.711	10.497.897	1.906.829	1.861.285
Goods in transit		625.440		40.315
	<b>20.242.667</b>	<b>25.972.410</b>	<b>6.212.724</b>	<b>6.346.245</b>
Less: write-down to net realizable value	(1.434.031)	(1.434.031)	(765.436)	(765.436)
<b>Total</b>	<b>18.808.636</b>	<b>24.538.379</b>	<b>5.447.288</b>	<b>5.580.809</b>

On the 31<sup>st</sup> of March 2012, the Group's and the Company's inventory with carrying amounts of 10.000.000 Litass and 4.000.000 Litass respectively are pledged as a security for the loan granted by the bank (as at 31 December 2011 – 10.000.000 Litass and 8.000.000 Litass).

## 14.14. Share capital and legal reserve

On the 31<sup>st</sup> of March 2012 share capital consisted of LTL 60.000.000 ordinary shares at a par value of LTL 1 each. All shares were fully paid.

On the 31<sup>st</sup> of March 2012 shareholders of the Company were as follows:

	Number of shares	Proportion of ownership, %
Lithuanian legal entities	29.819.900	49,7
Lithuanian individuals	22.203.428	37,0
Foreign legal entities	7.724.229	12,9
Foreign individuals	252.443	0,4
<b>Total</b>	<b>60.000.000</b>	<b>100,0</b>

On the 31<sup>st</sup> of March 2012 shareholders of the Company (by country) were as follows:

	Number of shares	Proportion of ownership, %
Lithuania	52.023.328	86,7
USA	6.012.266	10,0
Sweden	1.279.490	2,1
other countries	684.916	1,2
<b>Total</b>	<b>60.000.000</b>	<b>100</b>

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

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

#### 14.15. Loans and mortgages

	The Group		The Company	
	31.03.2012	31.12.2011	31.03.2012	31.12.2011
The loans and mortgages are repayable as				
Within one year	19.058.085	28.460.680	10.704.119	9.637.793
In the second year	26.706.887	19.361.439	12.411.476	12.411.476
In the third to fifth years inclusive	48.183.963	41.871.705	9.196.211	3.838.517
	<b>93.948.935</b>	<b>89.693.824</b>	<b>32.311.806</b>	<b>25.887.786</b>
Less: amount due for settlement within one year	(19.058.085)	(28.460.680)	(10.704.119)	(9.637.793)
<b>Amount due for settlement after one year</b>	<b>74.890.850</b>	<b>61.233.144</b>	<b>21.607.687</b>	<b>16.249.993</b>

#### 14.16. Trade and other payables

	The Group		The Company	
	31.03.2012	31.12.2011	31.03.2012	31.12.2011
Trade payables	30.019.414	32.560.874	11.286.265	12.936.941
Taxes, salaries and social insurance payable	6.355.933	5.363.556	2.068.017	1.900.804
Advances paid	395.717	1.441.846	130.028	105.793
Other payables	3.085.672	3.391.307	1.424.855	1.696.404
<b>Total</b>	<b>39.856.736</b>	<b>42.757.583</b>	<b>14.909.165</b>	<b>16.639.942</b>

#### 14.17. Other operating income

	The Group		The Company	
	01.01.2012- 31.03.2012	01.01.2011- 31.03.2011	01.01.2012- 31.03.2012	01.01.2011- 31.03.2011
Gain from disposal of emission rights				
Rent income	163.523	156.511	161.187	156.511
Gain from disposal of fixed assets	5.598	88.270	5.598	88.030
Proceeds from the sale of low-value inventory				
The reversal of inventory written off, scrap recognition	160.171	41.543	98.782	39.543
Insurance compensation	6.081	18.246		14.853
Write off of accounts payables				
Other income	52.266	83.730	83.338	14.775
<b>Total</b>	<b>387.639</b>	<b>388.300</b>	<b>348.905</b>	<b>313.712</b>

#### 14.18. Other operating expenses

	The Group		The Company	
	01.01.2012- 31.03.2012	01.01.2011- 31.03.2011	01.01.2012- 31.03.2012	01.01.2011- 31.03.2011
Rent expenses	56.194	43.410	56.194	41.187
Insurance expenses		307.881		
Other expenses	84.974	59.065	65.942	2.610
<b>Total</b>	<b>141.168</b>	<b>410.356</b>	<b>122.136</b>	<b>43.797</b>

14.19. *Off balance articles*

## Emission rights movement for the three months of 2012

	Amount, pcs.	
	The Group	The Company
31 December 2011	(9.911)	(6.390)
Emission rights allocated	126.393	94.081
Purchase of emission rights		
Emission rights used	(9.075)	(51)
Sale of emission rights		
<b>31 March 2012</b>	<b>107.407</b>	<b>87.640</b>

14.20. *Court and arbitration proceedings*

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