Grigeo AB

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017,
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS,
AS ADOPTED BY THE EUROPEAN UNION,
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholders of Grigeo AB

Report on the Audit of the Separate and the Consolidated Financial Statements

Opinion

We have audited the separate financial statements of AB Grigeo ("the Company") and the consolidated financial statements of AB Grigeo and its subsidiaries ("the Group"). The Company's separate and the Group's consolidated financial statements comprise:

- the separate and the consolidated statement of financial position as at 31 December 2017,
- the separate and the consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the separate and the consolidated statement of changes in equity for the year then ended,
- the separate and the consolidated statement of cash flows for the year then ended, and
- the notes to the separate and the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the non-consolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2017, respectively, and of their respective non-consolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Company code: 111494971
VAT code: LT114949716

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

Goodwill valuation (Consolidated financial statements)

We refer to the financial statements: Note 2.4 (accounting policy), Note 5 (financial disclosures).

The key audit matter	How the matter was addressed in our audit
The carrying amount of goodwill in the consolidated financial statements as at 31 December 2017: EUR 3,001 thousand; total impairment loss as at 31 December 2017: EUR 0 thousand. The goodwill was allocated to Grigeo Klaipėda AB cash generating unit upon the acquisition of Grigeo investicijų valdymas UAB in 2010. The recoverable amount of cash generating unit as at 31 December 2017 and 2016 was determined based on the discounted cash flows projection based on the five-year financial forecasts prepared by the management, including terminal value. The determination of recoverable amounts of the cash generating unit is a process that requires management to make significant judgements, including those in respect of future operating cash flows, growth rates and discount rates. Accordingly, we have identified this area as a key audit matter.	Our audit procedures performed included: • checking the mathematical accuracy of the impairment model used for determination of fair value of Grigeo Klaipėda AB cash generating unit; • evaluating the Group's budgeting process (upon which forecasts are based) by comparing the actual results for the year with original forecasts, taking these observations into consideration into the sensitivity analysis performed; • involving our valuation specialists who assisted us at assessing the appropriateness of the methodology applied in the impairment model, challenging the key assumptions used in the model by comparing the production, sales volumes and profit margins to historical results and to industry data, comparing the forecasted growth rates, the discount rate to the ones used in the paper manufacturing industry; • considering sensitivity of the impairment model to changes in key assumptions to understand the impact of such changes on levels of headroom; • considering the adequacy of the Group's disclosure in respect of impairment testing.

Other Information

The other information comprises the information included in the consolidated annual management report, including Corporate Governance Statement and Corporate Social Responsibility Report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the consolidated annual management report, including Corporate Governance Statement, for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements and whether consolidated annual management report, including Corporate Governance Statement, has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the separate and consolidated financial statements, in our opinion, in all material respects:

- The information given in the consolidated annual management report, including Corporate Governance Statement, for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- The consolidated annual management report, including Corporate Governance Statement, has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

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

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting we were appointed on 25 April 2012 for the first time to audit the Company's and the Group's separate and consolidated financial statements. Our appointment to audit the Company's and the Group's separate and consolidated financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 6 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and the Group and its Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided to the Company and the Group any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of separate and consolidated financial statements.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
28 March 2018

STATEMENTS OF FINANCIAL POSITION

	Notes	Group		Company	
		As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
ASSETS					
Non-current assets					
Property, plant and equipment	4	81,954,112	93,949,297	43,918,201	50,055,203
Investment property	6	1,331,302	804,401	1,331,302	804,401
Intangible assets	5	4,340,066	3,943,600	238,552	229,538
Investments into subsidiaries	1	-	-	8,468,001	8,468,001
Investments into other companies		29,449	28,962	28,962	28,962
Non-current receivables	8	287,873	302,236	178,755	817,215
Deferred income tax assets	23	1,886,619	239,321	1,317,155	436,243
Total non-current assets		**89,829,421**	**99,267,817**	**55,480,928**	**60,839,563**
Current assets					
Inventories	7	9,965,111	8,807,655	4,512,651	3,436,538
Accounts receivable	8	14,836,297	12,003,534	10,389,005	7,686,380
Other current assets		377,591	229,694	308,033	134,128
Advance income tax		-	170,282	-	83,216
Cash and cash equivalents	9	538,705	566,964	2,143	2,122
Total current assets		**25,717,704**	**21,778,129**	**15,211,832**	**11,342,384**
TOTAL ASSETS		**115,547,125**	**121,045,946**	**70,692,760**	**72,181,947**

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STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Notes	Group		Company	
		As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
EQUITY AND LIABILITIES					
Equity					
Share capital	10	19,053,000	19,053,000	19,053,000	19,053,000
Share premium	10	1,118,906	1,118,906	1,118,906	1,118,906
Legal reserve	10	1,905,300	1,905,300	1,905,300	1,905,300
Own shares reserve		1,000,000	1,000,000	1,000,000	1,000,000
Hedging reserve		(120,324)	(224,629)	(67,831)	(137,574)
Foreign currency translation reserve		(2,214,377)	(2,021,969)	-	-
Retained earnings		35,259,339	28,729,919	16,933,516	15,959,836
Equity attributable to equity holders of the parent		**56,001,844**	**49,560,527**	**39,942,891**	**38,899,468**
Non-controlling interests		425,395	577,861	-	-
Total equity		**56,427,239**	**50,138,388**	**39,942,891**	**38,899,468**
Liabilities					
Non-current liabilities					
Grants and subsidies	12	3,036,304	3,678,004	2,119,102	2,471,789
Non-current borrowings	13	18,354,280	27,458,313	7,426,463	9,923,551
Finance lease obligations	14	15,500	222,387	6,162	72,925
Loans from subsidiaries		-	-	-	-
Deferred income tax liability	23	-	-	-	-
Fair value of financial instruments		120,324	224,629	67,831	137,574
Non-current employee benefits	15	149,442	151,387	102,126	80,765
Long-term trade payables and other non-current liabilities		-	-	-	-
Total non-current liabilities		**21,675,850**	**31,734,720**	**9,721,684**	**12,686,604**
Current liabilities					
Current portion of long term loans	13	15,091,131	16,743,536	8,247,202	9,700,536
Current borrowings	13	1,928,034	748,432	1,218,058	124,943
Current portion of finance lease obligations	14	205,769	469,974	66,763	213,833
Loans from subsidiaries		-	-	-	-
Income tax payable		347,697	23	18,724	-
Trade and other payables	16	19,871,405	21,210,873	11,477,438	10,556,563
Total current liabilities		**37,444,036**	**39,172,838**	**21,028,185**	**20,595,875**
Total liabilities		**59,119,886**	**70,907,558**	**30,749,869**	**33,282,479**
TOTAL EQUITY AND LIABILITIES		**115,547,125**	**121,045,946**	**70,692,760**	**72,181,947**

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

The financial statements were prepared by the management on 28 March 2018 and signed on its behalf by:

Gintautas Pangonis
President

Nina Šilerienė
Vice President, Finance

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Group		Company	
		2017	2016	2017	2016
Revenue	17	129,867,083	102,461,347	70,976,100	56,958,839
Cost of sales		(105,670,868)	(84,972,164)	(59,562,705)	(47,538,469)
Gross profit		**24,196,215**	**17,489,183**	**11,413,395**	**9,420,370**
Other operating income	18	915,825	915,321	847,189	464,822
Selling and distribution expenses	20	(10,416,095)	(8,184,374)	(6,339,316)	(4,602,876)
General and administrative expenses	21	(5,265,130)	(4,834,885)	(2,757,694)	(2,366,839)
Other operating expenses	19	(293,284)	(311,709)	(402,300)	(232,043)
Profit from operations		**9,137,531**	**5,073,536**	**2,761,274**	**2,683,434**
Finance income	22	33,348	17,412	503,775	927,938
Finance expenses	22	(721,106)	(592,465)	(322,197)	(336,805)
Profit before income tax		**8,449,773**	**4,498,483**	**2,942,852**	**3,274,567**
Income tax	23	851,967	(13,993)	658,828	(165,170)
NET PROFIT		**9,301,740**	**4,484,490**	**3,601,680**	**3,109,397**
Other comprehensive income					
Items that will never be reclassified to profit or loss		-	-	-	-
Items that are or may be reclassified to profit or loss		**(92,182)**	**(323,005)**	**69,743**	**(137,574)**
Exchange differences on translation of foreign operations		(196,487)	(98,376)	-	-
Cash flow hedges – effective portion of changes in fair value		104,305	(224,629)	69,743	(137,574)
Total comprehensive income for the year, net of tax		**9,209,558**	**4,161,485**	**3,671,423**	**2,971,823**
Profit attributable to:					
The shareholders of the Company		9,157,420	4,419,415	3,601,680	3,109,397
Non-controlling interests		144,320	65,075	-	-
		9,301,740	**4,484,490**	**3,601,680**	**3,109,397**
Total comprehensive income attributable to:					
The shareholders of the Company		9,069,317	4,098,452	3,671,423	2,971,823
Non-controlling interests		140,241	63,033	-	-
		9,209,558	**4,161,485**	**3,671,423**	**2,971,823**
Basic and diluted earnings per share	24	**0.14**	**0.07**	**0.05**	**0.05**
Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)	26	**22,894,230**	**16,067,717**	**10,235,022**	**9,293,818**

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

The financial statements were prepared by the management on 28 March 2018 and signed on its behalf by:

Gintautas Pangonis
President

Nina Šilerienė
Vice President, Finance

STATEMENTS OF CHANGES IN EQUITY

Group	Equity attributable to equity holders of the parent								Non-controlling interest	Total equity:
	Share capital	Share premium	Legal reserve	Own shares reserve	Hedging reserve	Foreign currency translation reserve	Retained earnings	Total:		
Balance as at 31 December 2015	**19,053,000**	**1,118,906**	**1,807,949**	**-**	**-**	**(1,925,635)**	**26,721,855**	**46,776,075**	**673,968**	**47,450,043**
Net profit for the year	-	-	-	-	-	-	4,419,415	4,419,415	65,075	4,484,490
Other comprehensive income (expenses)	-	-	-	-	(224,629)	(96,334)	-	(320,963)	(2,042)	(323,005)
Total comprehensive income (expenses)	**-**	**-**	**-**	**-**	**(224,629)**	**(96,334)**	**4,419,415**	**4,098,452**	**63,033**	**4,161,485**
Own shares reserve (Note 10)	-	-	-	1,000,000	-	-	(1,000,000)	-	-	-
Transfer to legal reserve	-	-	97,351	-	-	-	(97,351)	-	-	-
Dividends approved (Note 25)	-	-	-	-	-	-	(1,314,000)	(1,314,000)		(1,314,000)
Transactions with owners of the Company	**-**	**-**	**97,351**	**1,000,000**	**-**	**-**	**(2,411,351)**	**(1,314,000)**		**(1,314,000)**
Transactions with non-controlling interest									**(159,140)**	**(159,140)**
Balance as at 31 December 2016	**19,053,000**	**1,118,906**	**1,905,300**	**1,000,000**	**(224,629)**	**(2,021,969)**	**28,729,919**	**49,560,527**	**577,861**	**50,138,388**
Net profit for the year	-	-	-	-	-	-	9,157,420	9,157,420	144,320	9,301,740
Other comprehensive income (expenses)	-	-	-	-	104,305	(192,408)	-	(88,103)	(4,079)	(92,182)
Total comprehensive income (expenses)	**-**	**-**	**-**	**-**	**104,305**	**(192,408)**	**9,157,420**	**9,069,317**	**140,241**	**9,209,558**
Dividends approved (Note 25)	-	-	-	-	-	-	(2,628,000)	(2,628,000)	-	(2,628,000)
Transactions with owners of the Company	**-**	**-**	**-**	**-**	**-**	**-**	**(2,628,000)**	**(2,628,000)**		**(2,628,000)**
Transactions with non-controlling interest									**(292,707)**	**(292,707)**
Balance as at 31 December 2017	**19,053,000**	**1,118,906**	**1,905,300**	**1,000,000**	**(120,324)**	**(2,214,377)**	**35,259,339**	**56,001,844**	**425,395**	**56,427,239**

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STATEMENTS OF CHANGES IN EQUITY (CONT'D)

Company	Share capital	Share premium	Legal reserve	Own shares reserve	Hedging reserve	Retained earnings	Total equity:
Balance as at 31 December 2015	**19,053,000**	**1,118,906**	**1,807,949**	**-**	**-**	**15,261,790**	**37,241,645**
Net profit for the year	-	-	-	-	-	3,109,397	3,109,397
Other comprehensive income (expenses)	-	-	-	-	(137,574)	-	(137,574)
Total comprehensive income (expenses)	**-**	**-**	**-**	**-**	**(137,574)**	**3,109,397**	**2,971,823**
Own shares reserve	-	-	-	1,000,000	-	(1,000,000)	-
Dividends approved (Note 25)	-	-	-	-	-	(1,314,000)	(1,314,000)
Transfer to legal reserve	-	-	97,351	-	-	(97,351)	-
Transactions with owners of the Company	**-**	**-**	**97,351**	**1,000,000**	**-**	**(2,411,351)**	**(1,314,000)**
Balance as at 31 December 2016	**19,053,000**	**1,118,906**	**1,905,300**	**1,000,000**	**(137,574)**	**15,959,836**	**38,899,468**
Net profit for the year	-	-	-	-	-	3,601,680	3,601,680
Other comprehensive income (expenses)	-	-	-	-	69,743	-	69,743
Total comprehensive income (expenses)	**-**	**-**	**-**	**-**	**69,743**	**3,601,680**	**3,671,423**
Dividends approved (Note 25)	-	-	-	-	-	(2,628,000)	(2,628,000)
Transactions with owners of the Company	**-**	**-**	**-**	**-**	**-**	**(2,628,000)**	**(2,628,000)**
Balance as at 31 December 2017	**19,053,000**	**1,118,906**	**1,905,300**	**1,000,000**	**(67,831)**	**16,933,516**	**39,942,891**

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

The financial statements were prepared by the management on 28 March 2018 and signed on its behalf by:

Gintautas Pangonis
President

Nina Šilerienė
Vice President, Finance

STATEMENTS OF CASH FLOWS

	Notes	Group		Company	
		2017	2016	2017	2016
Cash flows from (to) operating activities					
Profit before income tax		8,449,773	4,498,483	2,942,852	3,274,567
Adjustments for non-cash items					
Depreciation and amortisation net of grants		13,756,699	10,994,181	7,473,748	6,610,384
Elimination of finance (income) expenses	22	687,758	575,053	(181,578)	(591,133)
Loss (gain) on disposal and write-off of property, plant and equipment		(308,047)	1,985	(175,042)	(18,871)
Loss (profit) on disposal of emission rights		(258,825)	(284,800)	(179,075)	(142,400)
Property, plant and equipment impairment losses (reversal)		-	-	-	-
Allowance for doubtful accounts receivable (reversal)	8	(65,414)	(17,181)	71,749	7,035
		22,261,944	**15,767,721**	**9,952,654**	**9,139,582**
Changes in working capital					
(Increase) decrease in trade and other receivables		(2,647,105)	174,711	(1,999,814)	(1,111,544)
(Increase) decrease in inventories		(1,142,456)	1,310,249	(1,061,113)	1,853,221
(Increase) decrease in other assets		(147,897)	(38,357)	(173,905)	(16,647)
Increase (decrease) in trade and other payables		1,420,187	3,866,263	2,738,938	2,287,046
		(2,517,271)	**5,312,866**	**(495,894)**	**3,012,076**
Interest (paid)		(769,199)	(707,132)	(331,067)	(349,622)
Income tax (paid)		(171,839)	(656,533)	(59,461)	(347,926)
Net cash flows from (to) operating activities		**18,803,635**	**19,716,922**	**9,066,232**	**11,454,110**

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STATEMENTS OF CASH FLOWS (CONT'D)

	Notes	Group		Company	
		2017	2016	2017	2016
Cash flows from (to) investing activities					
(Acquisition) of property, plant and equipment and intangible assets	4, 5	(6,538,879)	(29,257,322)	(4,254,194)	(13,040,079)
(Acquisition) of other investments		-	-	-	-
Proceeds from sale of property, plant and equipment		348,240	98,776	178,127	49,040
Grants and subsidies received	12	-	14,933	-	14,933
Proceeds from disposal of emission allowances		258,825	284,800	179,075	142,400
Dividends received		-	-	475,051	898,000
Acquisition of non-controlling interest		(247,734)	-	-	-
Net cash flows (to) investing activities		**(6,179,548)**	**(28,858,813)**	**(3,421,941)**	**(11,935,706)**
Cash flows from (to) financing activities					
Dividends (paid)		(2,604,418)	(1,395,039)	(2,573,130)	(1,295,121)
Loans (repaid)		(11,789,009)	(6,631,566)	(4,982,993)	(3,546,046)
Proceeds from borrowings		1,032,571	20,080,134	1,032,571	7,946,429
Received (repaid) credit lines		1,179,602	(2,447,969)	1,093,115	(2,282,236)
Loans received from subsidiaries and related companies		-	-	-	-
Finance lease (payments)		(471,092)	(657,027)	(213,833)	(351,569)
Net cash flows from financing activities		**(12,652,346)**	**8,948,533**	**(5,644,270)**	**471,457**
Net increase (decrease) in cash and cash equivalents		**(28,259)**	**(193,358)**	**21**	**(10,139)**
Cash and cash equivalents at the beginning of the year		**566,964**	**760,322**	**2,122**	**12,261**
Cash and cash equivalents at the end of the year		**538,705**	**566,964**	**2,143**	**2,122**
Supplemental information of cash flows:					
Non-cash investing activity:					
Property, plant and equipment acquisitions financed by finance lease		-	140,953	-	61,299
Liability for property, plant and equipment outstanding as at year end		575,398	3,540,185	562,295	2,432,371

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

The financial statements were prepared by the management on 28 March 2018 and signed on its behalf by:

Gintautas Pangonis
President

Nina Šilerienė
Vice President, Finance

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

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

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

The nominal value of one share of the Company is EUR 0.29 (twenty nine cents) and the amount of the authorized capital of the Company is EUR 19,053,000 (nineteen million fifty three thousand euro).

As at 31 December 2017, the number of employees of the Group was 809 (as at 31 December 2016: 804). As at 31 December 2017, the number of employees of the Company was 371 (as at 31 December 2016: 357).

Structure of the Group

As at 31 December 2017 and 2016, Grigeo AB group consists of Grigeo AB and the following subsidiaries (hereinafter referred to as the Group):

Name	2017				2016		Address	Principal activity
	Share of the stock held by the Group	Size of investment (cost)	Profit (loss) for the reporting period	Equity at the end of the reporting period (100%)	Share of the stock held by the Group	Size of investment (cost)		
			Subsidiaries directly controlled by the Company:					
UAB Grigeo Baltwood	100%	4,655,466	245,243	7,050,271	100%	4,655,466	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Manufacturing of wood fibre boards.
UAB Grigeo Packaging	100%	2,896	-	2,896	100%	2,896	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Corrugated board and packaging from corrugated board manufacturing. No operations in 2017 and 2016.
UAB Naujieji Verkiai	100%	-	(637)	(16,728)	100%	-	Popieriaus St. 15, Vilnius, Lithuania	Building and development of real estate.
UAB Grigeo investicijų valdymas	100%	3,806,743	1,011,843	13,735,209	100%	3,806,743	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Investment activities and corporate governance.
UAB Grigiškių energija	100%	2,896	-	33	100%	2,896	Vilniaus St. 14, Grigiškės, Vilnius Mun., Lithuania	Heat production and sale. No operations in 2017 and 2016.
Total		**8,468,001**				**8,468,001**		

1. General information (cont'd)

Name	2017				2016		Address	Principal activity
	Share of the stock held by the Group	Size of invest-ment (cost)	Profit (loss) for the reporting period	Equity at the end of reporting period (100%)	Share of the stock held by the Group	Size of investment (cost)		
Subsidiaries indirectly controlled by the Company:								
AB Grigeo Klaipėda	97,67%	-	5,887,972	19,018,525	95.78%	-	Nemuno St. 2, Klaipėda, Lithuania	Production of paperboard and paper honeycomb.
UAB Grigeo Recycling	99,09%	-	(77,181)	(1,649,921)	95.78%	-	Vilniaus St. 10, Grigiškės, Vilnius Mun., Lithuania	Collection of secondary materials and preparation for recycling.
PAT Mena Pak	97,92%	-	157,909	1,127,150	93.79%	-	Koshevovo St. 6, Chernigovo distr., Mena, Ukraine	Corrugated board and packaging manufacturing.
SIA Grigeo Recycling	99,09%	-	-	2,800	-	-	Ģertrūdes iela 12-7, Riga, Latvia	Collection of secondary materials and preparation for recycling. No activities in 2017.

Changes in the Group in 2017 and 2016

In 2017 the share capital of UAB Grigeo Recycling was increased by EUR 1,800 thousand up to EUR 2,960 thousand. In 2016 the share capital of UAB Grigeo Baltwood was decreased by EUR 3,336 thousand. In 2016 the indirect subsidiary SIA Grigeo Recycling was established, which is owned by UAB Grigeo Recycling.

2. Accounting policies

2.1. Basis of preparation

The financial statements of the Group and the Company are prepared in accordance with International Financial Reporting Standards effective as at 31 December 2017 that have been adopted for use in the European Union.

These financial statements have been prepared on a historical cost basis, except of the financial instruments used for hedging, which are accounted at fair value.

The Company's management prepared these financial statements on 28 March 2017. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

Changes in accounting policies

The Group and the Company have consistently applied the accounting policies set out in Note 2 to all periods presented in these consolidated and separate financial statements.

The Group and the Company have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Standards and interpretations to published standards that are not yet effective

A number of new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2017 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, the following will potentially have an impact on the Company's and the Group's financial statements. The Group and the Company do not plan to adopt these amendments, new Standards and Interpretations earlier.

IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016). (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Company and the Group will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) the Company and the Group transfer control of goods or services to a customer at the amount to which the Company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the Company's and the Group's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that the Company and the Group shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard. The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide the Company and the Group with two additional practical expedients:

- The Company and the Group need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, the Company and the Group need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

Following analysis, the management does not expect that the new Standard, when initially applied, will have material impact on the Company's and the Group's financial statements. Potential impact is related to advertising services acquired from the Company's buyers which amount to EUR 1,170 thousand (in the Company and the Group), and starting from 1 January 2017 they will be accounted for as revenue reduction and not as selling and distribution expenses. The decision can be reviewed following initial application of this accounting principle.

IFRS 9 Financial Instruments (2014) (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and the Company and the Group have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

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

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, the Company and the Group may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required from the Company's and the Group's management.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items. Extensive additional disclosures regarding the Company's and the Group's risk management and hedging activities are required.

The Company and the Group do not expect IFRS 9 to have material impact on the financial statements. The classification and measurement of the financial instruments are not expected to change significantly under IFRS 9 because of the nature of the Company's and the Group's operations and the types of financial instruments that they hold.

2. Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

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

IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the Company and the Group also apply IFRS 15.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expenses for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will require the Company and Group to recognise in the statement of financial position assets and liabilities relating to operating leases for which the Company acts as a lessee. The maximum exposure so far is related to the lease of land, for which the Company will recognize new assets and liabilities. As at 31 December 2017, the Company's and the Group's future minimum lease payments for irrevocable operating leases amounted to EUR 1,650 thousand and EUR 4,290 thousand, respectively.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (the European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while;
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company and the Group do not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no subsidiaries, associates or joint ventures.

IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company and the Group expect that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company and the Group because the Company and the Group do not operate in the insurance industry.

2. Accounting policies (cont'd)

2.2. Going concern

These financial statements for the year ended 31 December 2017 have been prepared under the assumption that the Group and the Company will continue as a going concern. Going concern is described in Note 30.

2.3. Basis of consolidation

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

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

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

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

2.4. Business combinations and goodwill

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

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

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

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

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

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

2. Accounting policies (cont'd)

2.5. Measurement and presentation currency

The amounts shown in these financial statements are presented in euro, unless otherwise stated.

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

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

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

2.6. Investments in subsidiaries (the Company)

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

2.7. Intangible assets other than goodwill

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

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

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

Land lease right	90 years
Licenses, patents and etc.	3 years
Software	3 years
Other intangible assets	3–6 years

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

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

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

2.8. Property, plant and equipment

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

Before 31 December 2010, buildings were accounted as follows:

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

2. Accounting policies (cont'd)

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

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

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

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

Buildings and structures	8–91 years
Machinery and equipment	5–15 years
Vehicles	4–8 years
Other equipment and other assets	4–6 years

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

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

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

2.9. Investment property

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

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

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

2.10. Emission allowances

The EU Emission Allowance Trading Scheme was established by Directive 2003/87/EC and commenced on 1 January 2005. The first phase ran for the three-year period from 2005 to 2007; the second runs for five years from 2008 to 2012 to coincide with the first Kyoto Commitment Period; the third – for 8 years from 2013 to 2020. The scheme works on a 'Cap and Trade' basis. EU Member States' governments are required to set an emission cap for each phase for all 'installations' covered by the Scheme; this cap is established in the National Allocation Plan (NAP), which is issued by the relevant authority in each Member State. The NAP describes the amount of yearly emissions (measured in tonnes of carbon dioxide equivalents) permitted per installation for each phase for which allowances will be allocated on an annual basis.

2. Accounting policies (cont'd)

2.10. Emission allowances (cont'd)

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

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

The Company and the Group apply a net liability approach in accounting for the emission allowances received. It records the emission allowances granted to it at a nominal (nil) amount. When actual emissions exceed allocated emission allowances, the obligation of purchasing additional allowances is recognized as a provision measured at the market value of the allowances as at the reporting date. The Company and the Group have chosen a system that measures deficits on the basis of an annual allocation of emission allowances.

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

2.11. Borrowing costs

Borrowing costs are interest and other costs that the Company and the Group incur in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as costs when incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs may include:

- interest expenses calculated using the effective interest,
- finance charges in respect of finance leases and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

The commencement date for capitalization is the date when all of the following three conditions are met:

- expenditures for the asset are incurred,
- borrowing costs are incurred,
- activities necessary to bring the asset into its intended use or sale are undertaken.

Capitalizing of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.12. Financial assets

The Group's and the Company's financial assets are classified as 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 profit or loss.

The Group and the Company do not have any financial instruments at fair value through profit or loss as at 31 December 2017 and 2016.

2. Accounting policies (cont'd)

2.12. Financial assets (cont'd)

Held-to-maturity investments

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

The Group and the Company do not have any held-to-maturity investments as at 31 December 2017 and 2016.

Derivative financial instruments and hedge accounting

The Group and the Company holds derivative financial instruments to hedge their interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives initially are measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit of loss in the same period or periods during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit of loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for the hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

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 rate method less any allowance for impairment. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account – refer to Note 2.25 for measurement of impairment losses. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

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

2. Accounting policies (cont'd)

2.12. Financial assets (cont'd)

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 profit or loss.

The Group and the Company do not have any available for sale financial assets as at 31 December 2017 and 2016.

2.13. Offsetting financial assets and financial liabilities

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

2.14. 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 profit of loss.

2.15. Inventories

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

2.16. 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.

2. Accounting policies (cont'd)

2.16. Cash and cash equivalents (cont'd)

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

2.17. 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.

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

2.18. Finance lease and operating lease

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

Finance lease – Group and the Company as a lessee

Leases in terms of which the Group and the Company assume substantially all the risks and rewards of ownership are classified as finance leases.

The Group and the Company recognise finance 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 finance lease is the interest rate of finance 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 finance lease assets and it also gives rise to financial expenses in the Group's and the Company's statement of profit or loss 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 profit or loss 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 an operating lease and the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

2. Accounting policies (cont'd)

2.18. Finance lease and operating lease (cont'd)

Operating lease – the Group and the Company as lessor

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

2.19. 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 in profit or loss immediately after the assessment of such liability. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in profit or loss as incurred.

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

2.20. Financial guarantee contracts

Financial guarantees provided for the liabilities of the sister companies (i.e. companies controlled by the same parent) during the initial recognition are accounted at estimated fair value as distribution to shareholder and financial liability in the balance sheet.

Subsequent to initial recognition this financial liability is amortised and recognised as income depending on the related amortisation / repayment of the sister company's financial liability to the bank. If there is a possibility that the sister company may fail to fulfil its obligations to the bank, a financial liability of the Company is accounted for at the higher of amortised value and the value estimated according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

2.21. 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 profit or loss, a relevant expenses account is reduced by the amount of grant amortisation. Grants are accounted for at the fair value of the assets acquired or received.

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

2.22. Trade and other payable

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

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

2. Accounting policies (cont'd)

2.23. Income tax

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

Income tax rate of 15% has been introduced starting from 1 January 2010 for companies operating in the Republic of Lithuania. Standard income tax rate in Ukraine for the year 2017 was 18% (2016: 18%).

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

From 2014 tax losses carried forward can cover not more than 70 percent of the taxable profit of a taxable period according to Lithuanian laws.

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 they will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.24. 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.

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 profit or loss.

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

Fines and penalties are recognized as income on the date of receipt of inflow.

2. Accounting policies (cont'd)

2.25. 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 profit or loss. 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 profit or loss. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

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

Impairment of non-financial assets

Non-financial assets, except for goodwill, inventories and deferred tax, are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in profit or loss. 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 profit or loss as the impairment loss. An impairment loss of the goodwill is recognised in profit or loss.

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

2.26. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies, at the reporting date and within the next financial year. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation (Notes 2.8, 2.9, 4, 6), amortisation (Note 2.7 and Note 5), impairment of buildings (Note 2.8, Note 4), non-current employee benefits (Note 2.19 and Note 15), impairment evaluation of goodwill (Note 2.4, Note 5), recognition of deferred income tax asset (Note 2.23, Note 23), and impairment evaluation of other assets (Note 2.25, Note 8). Future events may occur which will cause the assumptions used in arriving at the estimates to change. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.27. Fair value measurement

A number of the Group's and the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group and the Company have access at that date. The fair value of a liability reflects its non-performance risk.

2. Accounting policies (cont'd)

2.27. Fair value measurement (cont'd)

When measuring the fair value of an asset or a liability, the Group and the Company use market observable data as far as possible. Fair values are categorised within different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group and the Company recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability:

Note 6 – Investment property
Note 3 – Financial instruments – fair values and risk management

2.28. Contingencies

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

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

2.29. Subsequent events

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

3. Financial instruments – fair values and risk management

The Group and the Company are exposed to the financial risk in their operations, i.e. credit risk, liquidity risk and market risk (foreign currency risk, interest rate risk). To manage these risks, the Group and the Company seek to mitigate potential adverse effects which could negatively impact the financial performance of the Group and the Company.

Credit risk

The Group and the Company do not have any significant concentration of trading counterparties. The Group's receivables from two major customers as at 31 December 2017 amounted to 9.3% and 8.4%, respectively (14.2% and 6.2% as at 31 December 2016) of the total Group's trade receivables. The Company's receivables from two major customers as at 31 December 2017 amounted to 13.3% (paid) and 11.9%, respectively (14.2% (paid) and 6.2% as at 31 December 2016) of the total Company's trade receivables.

The Company has one customer in the segment of paper and paper products whose sales revenue exceeds 10% of the Company's annual sales revenue.

3. Financial instruments – fair values and risk management (cont'd)

Credit risk (cont'd)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, consequently, the Company's management considers that its maximum exposure is reflected by the amount of current and non-current trade and other receivables, net of allowance for doubtful accounts and cash and cash equivalents recognised at the date of the statement of financial position. Credit risk or risk that a counterparty will not fulfil its obligations, is controlled by credit terms and monitoring procedures, using services of external credit insurance and debt recovery agencies. The Company's intent is to maximize the number of insured clients, with clients who are not insured by a credit insurance company, the Company usually only works on the basis of an advance payment.

The Group's and the Company's trade debtors ageing analysis is provided in Note 8.

The maximum exposure to credit risk of the Group's and the Company's cash and cash equivalents is equal to the fair value of cash and cash equivalents classified as cash and cash equivalents at the date of the preparation of the statements of financial position. The management of the Group and the Company considers that the risk arising from placement of cash and cash equivalents at bank accounts and other short-term financial instruments is not significant, as placements are made only in commercial banks in Lithuania, which have high credit ratings.

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	Carrying amount
Interest bearing borrowings	-	3,408,843	14,043,731	18,648,037	-	36,100,611	35,373,445
Finance lease obligations	-	78,130	129,115	15,540	-	222,785	221,269
Trade payables	-	16,430,016	-	-	-	16,430,016	16,430,016
Other current liabilities	248,219	543,740	-	-	-	791,959	791,959
Balance as at 31 December 2017	**248,219**	**20,460,729**	**14,172,846**	**18,663,577**	**-**	**53,545,371**	**52,816,689**
Interest bearing borrowings	-	3,368,003	14,677,342	27,984,694	-	46,030,039	44,950,281
Finance lease obligations	-	139,311	337,460	223,898	-	700,669	692,361
Trade payables	-	17,767,849	490,000	-	-	18,257,849	18,257,849
Other current liabilities	372,761	471,930	-	-	-	844,691	844,691
Balance as at 31 December 2016	**372,761**	**21,747,093**	**15,504,802**	**28,208,592**	**-**	**65,833,248**	**64,745,182**

3. Financial instruments – fair values and risk management (cont'd)

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	Carrying amount
Interest bearing borrowings	-	1,334,604	8,277,583	7,502,829		17,115,016	16,891,723
Finance lease obligations	-	28,081	39,157	6,173	-	73,411	72,925
Payables to related parties	-	1,579,779	-	-	-	1,579,779	1,579,779
Trade payables	-	8,536,793	-	-	-	8,536,793	8,536,793
Guarantees issued for the related parties	3,871,633	-	-	-	-	3,871,633	3,871,633
Other current liabilities	2,909	173,880	92,998	-	-	269,787	269,787
Balance as at 31 December 2017	**3,874,542**	**11,653,137**	**8,409,738**	**7,509,002**	**-**	**31,446,419**	**31,222,640**
Interest bearing borrowings	-	1,355,831	8,712,481	10,041,111	-	20,109,423	19,749,030
Finance lease obligations	-	74,048	142,190	73,411	-	289,649	286,758
Payables to related parties	-	100,895	-	-	-	100,895	100,895
Trade payables	-	8,684,774	490,000	-	-	9,174,774	9,174,774
Guarantees issued for the related parties	4,423,149	-	-	-	-	4,423,149	4,423,149
Other current liabilities	135,935	244,695	-	-	-	380,630	380,630
Balance as at 31 December 2016	**4,559,084**	**10,460,243**	**9,344,671**	**10,114,522**	**-**	**34,478,520**	**34,115,236**

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

As disclosed in Note 13, the Group and the Company has a secured bank loans that contains a loan covenant. A future breach of covenant may require the Group to repay the loan earlier than indicated in the above table. Under the agreement the covenant is monitored in a regular basis by the Finance team, and regularly reported to the management to ensure compliance with the agreement.

As at 31 December 2017 the Company had a guarantee issued to the bank to secure the loans of EUR 3,162 thousand of its subsidiary Grigeo Klaipėda AB (as at 31 December 2016: the loans of EUR 3,800 thousand) and of its indirect subsidiary Grigeo Recycling UAB EUR 710 thousand (as at 31 December 2016: the loans of EUR 623 thousand).

As described in Note 30, as at 31 December 2017 current liabilities of the Group and the Company exceeded its current assets. The Company uses overdrafts and other short-term credits; furthermore as described in Note 30, some repayment terms for the current loans have been already rescheduled subsequently and other are expected to be rescheduled.

3. Financial instruments – fair values and risk management (cont'd)

Interest rate risk

The major part of the Group's and the Company's borrowings (loans and finance lease obligations) are subject to variable rates, related to LIBOR, EURIBOR, which creates an interest rate risk (Notes 13 and 14).

In 2016 the Company entered into two interest rate swap agreements with the bank establishing fixed interest rates on loans. The agreements come into effect on 31 March 2016 and will be effective until 31 December 2020. As at 31 December 2017 the fair value of the financial instrument, which is calculated by the bank, amounted to EUR 68 thousand for the Company and EUR 120 thousand for the Group (as at 31 December 2016: the fair value of the financial instrument amounted to EUR 137 thousand for the Company and EUR 225 thousand for the Group). As at 31 December 2017 the Company's financial instruments have a nominal value EUR 12,736 thousand, the Group's – EUR 24,818 thousand (as at 31 December 2016: the Company's financial instruments have a nominal value EUR 15,981 thousand and the Group's – EUR 32,036 thousand).

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate borrowings).

	Increase/decrease in basis points	Effect on equity	Effect on the profit before the income tax
2017			
EUR	+100	(26,964)	(328,983)
EUR	-100	26,964	328,983
2016			
EUR	+100	(34,353)	(422,073)
EUR	-100	34,353	422,073

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate borrowings).

	Increase/decrease in basis points	Effect on equity	Effect on the profit before the income tax
2017			
EUR	+100	(12,904)	(156,742)
EUR	-100	12,904	156,742
2016			
EUR	+100	(15,888)	(184,470)
EUR	-100	15,888	184,470

Foreign exchange risk

The Group's and the Company's monetary assets and liabilities as at 31 December 2017 and 2016 are mainly denominated EUR, consequently the management of the Company believes that foreign exchange risk is insignificant.

3. Financial instruments – fair values and risk management (cont'd)

Foreign exchange risk (cont'd)

Monetary assets and liabilities of the Group denominated in various currencies as at 31 December 2017 were as follows (equivalent in EUR):

Group	UAH	USD	EUR	Other
Receivables	353,267	-	14,770,903	-
Cash and cash equivalents	145,119	-	393,586	-
Borrowings and finance lease obligations	-	-	(35,594,714)	-
Payables	(263,584)	(400)	(16,957,991)	-
Total	**234,802**	**(400)**	**(37,388,216)**	**-**

Monetary assets and liabilities of the Group denominated in various currencies as at 31 December 2016 were as follows (equivalent in EUR):

Group	UAH	USD	EUR	Other
Receivables	227,917	-	12,077,831	22
Cash and cash equivalents	11,771	-	555,193	-
Borrowings and finance lease obligations	-	-	(45,642,642)	-
Payables	(166,721)	-	(19,269,261)	-
Total	**72,967**	**-**	**(52,278,879)**	**22**

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

	Increase/decrease in basis points	Effect on the profit before the income tax
2017		
USD	+10	-
USD	-10	-
UAH	+10	235
UAH	-10	(235)
2016		
USD	+10	-
USD	-10	-
UAH	+10	198
UAH	-10	(198)

Fair value of financial instruments

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

3. Financial instruments – fair values and risk management (cont'd)

Fair value of financial instruments (cont'd)

The following table shows the carrying amounts and fair values of financial liabilities, including their levels in the fair value hierarchy. The carrying of financial liabilities not measured at fair value approximates their fair value.

31 December 2017:

Group	Note	Carrying amount	Fair value			
		Total	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value						
Interest rate swap used for hedging		(120,324)	-	(120,324)	-	(120,324)
Financial liabilities not measured at fair value						
Interest bearing loans and borrowings		(35,373,445)	-	(35,373,445)	-	(35,373,445)
Finance lease obligations		(221,269)	-	(221,269)	-	(221,269)
Total financial liabilities		**(35,715,038)**	-	**(35,715,038))**	-	**(35,715,038)**

31 December 2016:

Group	Note	Carrying amount	Fair value			
		Total	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value						
Interest rate swap used for hedging		(224,629)	-	(224,629)	-	(224,629)
Financial liabilities not measured at fair value						
Interest bearing loans and borrowings		(44,950,281)	-	(44,950,281)	-	(44,950,281)
Finance lease obligations		(692,361)	-	(692,361)	-	(692,361)
Total financial liabilities		**(45,867,271)**	-	**(45,867,271)**	-	**(45,867,271)**

31 December 2017:

Company	Note	Carrying amount	Fair value			
		Total	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value						
Interest bearing loans and borrowings		(67,831)	-	(67,831)	-	(67,831)
Financial liabilities not measured at fair value						
Interest bearing loans and borrowings		(16,891,723)	-	(16,891,723)	-	(16,891,723)
Finance lease obligations		(72,925)	-	(72,925)	-	(72,925)
Total financial liabilities		**(17,032,479)**	-	**(17,032,479)**	-	**(17,032,479)**

3. Financial instruments – fair values and risk management (cont'd)

Fair value of financial instruments (cont'd)

31 December 2016:

Company	Note	Carrying amount	Fair value			
		Total	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value						
Interest bearing loans and borrowings		(137,574)	-	(137,574)	-	(137,574)
Financial liabilities not measured at fair value						
Interest bearing loans and borrowings		(19,749,030)	-	(19,749,030)	-	(19,749,030)
Finance lease obligations		(286,758)	-	(286,758)	-	(286,758)
Total financial liabilities		**(20,173,362)**	**-**	**(20,173,362)**	**-**	**(20,173,362)**

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

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

b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile.

The fair value of financial instruments is determined based on observable market inputs, apart from market quoted prices; therefore, the fair value of interest bearing loans and borrowings as well as finance lease obligations is attributed to Level 2; the value of cash is attributed to Level 1.

4. Property, plant and equipment

Group	Buildings and structures	Machinery and equipment	Vehicles	Other assets	Construction in progress and prepayments	TOTAL
Cost:						
Balance as at 31 December 2015	**36,208,004**	**79,698,634**	**1,714,767**	**2,107,691**	**9,950,727**	**129,679,823**
Additions	105,963	1,163,781	166,882	128,294	27,443,760	29,008,680
Disposals and write-offs	(40,408)	(1,083,182)	(86,800)	(183,278)	-	(1,393,668)
Transfer from construction in progress to property, plant and equipment	3,646,237	23,243,707	114,467	138,686	(27,143,097)	-
Reclassifications	(713)	18,865	-	(18,152)	-	-
Transfer to inventories for sale	-	(156,452)	-	-	-	(156,452)
Effect of foreign currency translation	(57,220)	(40,112)	(1,679)	(3,339)	-	(102,350)
Balance as at 31 December 2016	**39,861,863**	**102,845,241**	**1,907,637**	**2,169,902**	**10,251,390**	**157,036,033**
Additions	16,605	172,407	156,747	204,856	1,932,015	2,482,630
Disposals and write-offs	(183,871)	(2,822,164)	(118,459)	(290,659)	-	(3,415,153)
Transfer from construction in progress to property, plant and equipment	2,963,608	8,342,749	-	288,525	(11,594,882)	-
Reclassifications	-	-	-	-	-	-
Transfer to inventories for sale	-	(32,813)	-	-	-	(32,813)
Effect of foreign currency translation	(98,215)	(73,206)	(4,564)	(6,002)	-	(181,987)
Balance as at 31 December 2017	**42,559,990**	**108,432,214**	**1,941,361**	**2,366,622**	**588,523**	**155,888,710**
Accumulated depreciation and impairment:						
Balance as at 31 December 2015	**7,347,062**	**43,258,334**	**925,121**	**1,516,311**	**-**	**53,046,828**
Depreciation	2,053,830	8,898,467	265,558	320,304	-	11,538,159
Impairment loss/(reversal)	-	-	-	-	-	-
Disposals and write-offs	(28,286)	(1,009,584)	(63,746)	(182,772)	-	(1,284,388)
Reclassifications	(434)	14,066	-	(13,632)	-	-
Transfer to inventories for sale	-	(155,231)	-	-	-	(155,231)
Effect of foreign currency translation	(27,241)	(28,722)	(688)	(1,981)	-	(58,632)
Balance as at 31 December 2016	**9,344,931**	**50,977,330**	**1,126,245**	**1,638,230**	**-**	**63,086,736**
Depreciation	3,332,456	10,520,897	238,971	278,899	-	14,371,223
Impairment loss/(reversal)	-	-	-	-	-	-
Disposals and write-offs	(183,871)	(2,819,031)	(82,133)	(289,926)	-	(3,374,961)
Reclassifications	-	-	-	-	-	-
Transfer to inventories for sale	-	(17,813)	-	-	-	(17,813)
Effect of foreign currency translation	(57,717)	(65,459)	(2,209)	(5,202)	-	(130,587)
Balance as at 31 December 2017	**12,435,799**	**58,595,924**	**1,280,874**	**1,622,001**	**-**	**73,934,598**
Net book value as at 31 December 2016	**30,516,932**	**51,867,911**	**781,392**	**531,672**	**10,251,390**	**93,949,297**
Net book value as at 31 December 2017	**30,124,191**	**49,836,290**	**660,487**	**744,621**	**588,523**	**81,954,112**

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

Company	Buildings and structures	Machinery and equipment	Vehicles	Other assets	Construction in progress and prepayments	TOTAL
Cost:						
Balance as at 31 December 2015	**15,376,607**	**53,553,861**	**542,241**	**1,103,635**	**4,576,967**	**75,153,311**
Additions	72,474	1,981	71,604	95,660	12,604,216	12,845,935
Disposals and write-offs	-	(211,773)	(38,296)	(60,982)	-	(311,051)
Transfer from construction in progress to property, plant and equipment	2,380,479	4,427,040	2,815	133,038	(6,943,372)	-
Transfer to inventories for sale	-	(156,452)	-	-	-	(156,452)
Balance as at 31 December 2016	**17,829,560**	**57,614,657**	**578,364**	**1,271,351**	**10,237,811**	**87,531,743**
Additions	-	32,547	56,200	130,596	1,496,137	1,715,480
Disposals and write-offs	(15,060)	(2,553,355)	(28,493)	(122,044)	-	(2,718,952)
Transfer from construction in progress to property, plant and equipment	2,932,818	8,221,713	-	-	(11,154,531)	-
Transfer to inventories for sale	-	(32,813)	-	-	-	(32,813)
Balance as at 31 December 2017	**20,747,318**	**63,282,749**	**606,071**	**1,279,903**	**579,417**	**86,495,458**
Accumulated depreciation and impairment:						
Balance as at 31 December 2015	**3,009,738**	**26,885,901**	**271,057**	**772,135**	-	**30,938,831**
Depreciation	1,074,561	5,619,381	89,855	190,033	-	6,973,830
Disposals and write-offs	-	(192,447)	(27,493)	(60,950)	-	(280,890)
Transfer to inventories for sale	-	(155,231)	-	-	-	(155,231)
Reclassifications	-	-	-	-	-	-
Balance as at 31 December 2016	**4,084,299**	**32,157,604**	**333,419**	**901,218**	-	**37,476,540**
Depreciation	1,171,449	6,422,316	65,395	175,237	-	7,834,397
Disposals and write-offs	(15,060)	(2,553,346)	(25,439)	(122,022)	-	(2,715,867)
Transfer to inventories for sale	-	(17,813)	-	-	-	(17,813)
Reclassifications	-	-	-	-	-	-
Balance as at 31 December 2017	**5,240,688**	**36,008,761**	**373,375**	**954,433**	-	**42,577,257**
Net book value as at 31 December 2016	**13,745,261**	**25,457,053**	**244,945**	**370,133**	**10,237,811**	**50,055,203**
Net book value as at 31 December 2017	**15,506,630**	**27,273,988**	**232,696**	**325,470**	**579,417**	**43,918,201**

As at 31 December 2017 and 2016, the net book value of the Group's and Company's property, plant and equipment acquired under finance lease was as follows:

	Group		Company	
	As at 31 December 2017	**As at 31 December 2016**	**As at 31 December 2017**	**As at 31 December 2016**
Machinery and equipment	237,504	603,062	107,194	390,318
Vehicles	272,567	396,027	120,892	213,202
Total	**510,070**	**999,089**	**228,085**	**603,520**

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

The depreciation charge of the Group's and the Company's property, plant and equipment for the years 2017 and 2016 is included in the following items of profit or loss:

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Cost of production	14,144,024	11,242,290	7,715,218	6,827,775
General and administrative expenses	87,904	160,742	33,293	66,411
Selling and distribution expenses	139,295	135,127	85,886	79,644
Total	**14,371,223**	**11,538,159**	**7,834,397**	**6,973,830**

As at 31 December 2017, the part of the Group's and the Company's property, plant and equipment with a net book value of EUR 67,346 thousand and EUR 33,952 thousand, respectively (31 December 2016: EUR 69,829 thousand and EUR 32,109 thousand, respectively) is pledged as a security for repayment of the loans granted by banks (Note 13).

Property, plant and equipment of the Group and the Company with an acquisition cost of EUR 17,292 thousand and EUR 11,675 thousand, respectively, were fully depreciated as at 31 December 2017 (EUR 20,469 thousand and EUR 11,946 thousand as at 31 December 2016, respectively), but were still in active use.

Acquisitions of property, plant and equipment and intangible assets in the cash flow statement are shown together with the change in the payable amount for loans at the year-end for the acquisition of property, plant and equipment.

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

Group	2017			2016		
	Carrying amount	Total estimated costs of the project	Estima-ted date of comp-letion	Carrying amount	Total estimated costs of the project	Estimated date of comple-tion
Production line and buildings	-	-	-	7,964,218	8,098,319	2017
Reconstruction of manufacturing plant	-	-	-	617,907	1,380,000	2017
Modernization of paper manufacturing machine	-	-	-	1,008,323	875,000	2017
Dust removal system for the tissue machine rewinder	239,315	245,000	2018	-	-	-
Other projects	23,296	605,000	2018	647,364	925,900	2017
Total	**262,611**	**850,000**		**10,237,812**	**11,279,219**	

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

Company	2017			2016		
	Carrying amount	Total estimated costs of the project	Estimated date of completion	Carrying amount	Total estimated costs of the project	Estimated date of completion
Production line and buildings	-	-	-	7,964,218	8,098,319	2017
Reconstruction of manufacturing plant	-	-	-	617,907	1,380,000	2017
Modernization of paper manufacturing machine	-	-	-	1,008,323	875,000	2017
Dust removal system for the tissue machine rewinder	239,315	245,000	2018	-	-	-
Other projects	23,296	605,000	2018	647,364	925,900	2017
Total	**262,611**	**850,000**		**10,237,812**	**11,279,219**	

5. Intangible assets

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Goodwill	3,001,072	3,001,072	-	-
Other intangible assets	1,338,994	942,528	238,552	229,538
Total	**4,340,066**	**3,943,600**	**238,552**	**229,538**

<u>Goodwill</u>

On 1 March 2010, the Company acquired Grigeo investicijų valdymas UAB, consisting of Grigeo investicijų valdymas UAB, Avesko UAB, Grigeo Klaipėda AB and Mena Pak PAT.

At the acquisition of these subsidiaries goodwill of EUR 3,001,072 has been accounted for. The goodwill appeared due to expected synergies. Goodwill is not amortised, but tested annually for impairment.

For the purpose of impairment evaluation, the goodwill as at 31 December 2017 and 2016 was allocated to Grigeo Klaipėda AB cash generating unit. The recoverable amount of cash generating unit as at 31 December 2017 and 2016 was determined based on the discounted cash flow projections based on the five-year financial forecasts prepared by the management. Significant assumptions used for the assessment of the value in use in 2017 and 2016 are described further.

The forecasted revenues were estimated based on the management assumptions as at 31 December 2017 and 2016 assuming that the growth in revenue will be in line with the estimated inflation rate, ongoing investment in manufacturing equipment productivity and efficiency gain and the actions of sale activation. The costs were projected based on the actual cost level taking into account estimated inflation. Cash flows beyond the five-year period were extrapolated using 1% growth rate that reflects the best estimate of the management based on the current situation in the respective industry. The discount rate used by the management was estimated for cash generating unit as a weighted average cost of capital for that particular cash generating unit and is equal to 7% in 2017 and 8% in 2016 (pre-tax) for cash generating units located in Lithuania. The main assumptions applied in goodwill impairment evaluation were the same in 2017 and 2016.

The assessment of the recoverable amount of the CGU as at 31 December 2017 and 2016 resulted in no impairment of goodwill.

With regard to the assessment of the recoverable amount of the above mentioned cash generating unit as at 31 December 2017 and 2016, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

5. Intangible assets (cont'd)

Other intangible assets

Group	Land lease right	Licenses, patents	Software	Other assets and prepayments	Total
Cost:					
Balance as at 31 December 2015	**695,088**	**59,511**	**1,140,087**	**728,781**	**2,623,467**
Additions	-	20,972	10,730	149,896	181,598
Disposals, write-offs	-	(11,269)	(24,572)	-	(35,841)
Transfers from property, plant and equipment	-	-	-	-	-
Transfer from prepayments to intangible assets	-	-	2,574	(2,574)	-
Effect of foreign currency translation	-	-	(127)	-	(127)
Balance as at 31 December 2016	**695,088**	**69,214**	**1,128,692**	**876,103**	**2,769,097**
Additions	-	5,237	3,094	539,415	547,746
Disposals, write-offs	-	-	(8,959)	-	(8,959)
Transfers from property, plant and equipment	-	-	-	-	-
Transfer from prepayments to intangible assets	-	-	507,222	(507,222)	-
Effect of foreign currency translation	-	-	(318)	-	(318)
Balance as at 31 December 2017	**695,088**	**74,451**	**1,629,731**	**908,296**	**3,307,566**
Accumulated amortisation:					
Balance as at 31 December 2015	**95,253**	**40,718**	**841,833**	**653,069**	**1,630,873**
Amortisation	7,723	14,528	173,641	35,665	231,557
Disposals, write-offs	-	(11,263)	(24,570)	-	(35,833)
Reclassifications	-	-	-	-	-
Effect of foreign currency translation	-	-	(28)	-	(28)
Balance as at 31 December 2016	**102,976**	**43,983**	**990,876**	**688,734**	**1,826,569**
Amortisation	7,723	14,462	92,958	35,851	150,994
Disposals, write-offs	-	-	(8,958)	-	(8,958)
Reclassifications	-	-	-	-	-
Effect of foreign currency translation	-	-	(33)	-	(33)
Balance as at 31 December 2017	**110,699**	**58,445**	**1,074,843**	**724,585**	**1,968,572**
Net book value as at 31 December 2016	**592,112**	**25,231**	**137,816**	**187,369**	**942,528**
Net book value as at 31 December 2017	**584,389**	**16,006**	**554,888**	**183,711**	**1,338,994**

5. Intangible assets (cont'd)

Other intangible assets (cont'd)

Company	Licenses, patents	Software	Other assets and prepayments	TOTAL
Cost:				
Balance as at 31 December 2015	**59,511**	**661,944**	**207,106**	**928,561**
Additions	20,972	7,144	64,954	93,070
Disposals, write-offs	(11,269)	(17,686)	-	(28,955)
Reclassifications	-	-	-	-
Transfer from construction in progress	-	2,574	(2,574)	-
Balance as at 31 December 2016	**69,214**	**653,976**	**269,486**	**992,676**
Additions	5,237	2,550	117,135	124,922
Disposals, write-offs	-	-	-	-
Reclassifications	-	-	-	-
Transfer from construction in progress	-	-	-	-
Balance as at 31 December 2017	**74,451**	**656,526**	**386,621**	**1,117,598**
Accumulated amortisation:				
Balance as at 31 December 2015	**40,718**	**500,990**	**132,588**	**674,296**
Amortisation	14,528	68,064	35,197	117,789
Disposals, write-offs	(11,263)	(17,684)	-	(28,947)
Reclassifications	-	-	-	-
Balance as at 31 December 2016	**43,983**	**551,370**	**167,785**	**763,138**
Amortisation	14,462	65,832	35,614	115,908
Disposals, write-offs	-	-	-	-
Reclassifications	-	-	-	-
Balance as at 31 December 2017	**58,445**	**617,202**	**203,399**	**879,046**
Net book value as at 31 December 2016	**25,231**	**102,606**	**101,701**	**229,538**
Net book value as at 31 December 2017	**16,006**	**39,324**	**183,222**	**238,552**

The Group and the Company have not capitalised any internally generated intangible assets. Amortisation expenses of intangible assets are included in the following captions in profit or loss:

	Group		Company	
	As at 31 December 2017	**As at 31 December 2016**	**As at 31 December 2017**	**As at 31 December 2016**
Cost of production	59,829	137,710	59,658	62,302
General and administrative expenses	83,932	83,070	56,250	55,487
Selling and distribution expenses	7,233	10,777	-	-
Total	**150,994**	**231,557**	**115,908**	**117,789**

Part of the non-current intangible assets of the Group and the Company with the acquisition value of EUR 1,384 thousand and EUR 460 thousand, respectively, as at 31 December 2017 was fully amortised (EUR 1,271 thousand and EUR 367 thousand as at 31 December 2016, respectively) but was still in use.

As at 31 December 2017, the Group's land lease rights with a carrying value of EUR 584 thousand (EUR 592 thousand as at 31 December 2016) are pledged as a security for repayment of the loan granted by banks (Note 13).

6. Investment property

Group

Cost:	Buildings	Construction in progress and prepayments	TOTAL
Balance as at 31 December 2015	**1,048,424**		**1,048,424**
Additions			-
Balance as at 31 December 2016	**1,048,424**		**1,048,424**
Additions		557,483	557,483
Disposals	557,483	(557,483)	-
Balance as at 31 December 2017	**1,605,907**	-	**1,605,907**
Accumulated depreciation:			
Balance as at 31 December 2015	**213,441**	-	**213,441**
Depreciation	30,582	-	30,582
Balance as at 31 December 2016	**244,023**	-	**244,023**
Depreciation	**30,582**		**30,582**
Disposals			
Balance as at 31 December 2017	**274,605**	-	**274,605**
Net book value as at 31 December 2016	**804,401**	-	**804,401**
Net book value as at 31 December 2017	**1,331,302**	-	**1,331,302**

Company

Cost:	Buildings	Construction in progress and prepayments	TOTAL
Balance as at 31 December 2015	**1,048,424**		**1,048,424**
Additions			-
Balance as at 31 December 2016	**1,048,424**		**1,048,424**
Additions		557,483	557,483
Disposals	557,483	(557,483)	-
Balance as at 31 December 2017	**1,605,907**	-	**1,605,907**
Accumulated depreciation:			
Balance as at 31 December 2015	**213,441**	-	**213,441**
Depreciation	30,582	-	30,582
Balance as at 31 December 2016	**244,023**	-	**244,023**
Depreciation	**30,582**		**30,582**
Disposals			
Balance as at 31 December 2017	**274,605**	-	**274,605**

Investment property represents buildings, located at Vilniaus St. 10 and Popieriaus St. 15 and Popieriaus St. 25 in Naujieji Verkiai. Part of the investment properties are rented to third parties. Rent contracts are open-ended. Depreciation charge is included in general and administrative expenses.

Fair value measurement

The fair value of the investment property was determined based on the cash flows from the investment property for a 10-year period, estimated income, estimated current income and costs. A growth of 2.5% was applied in the terminal value. A discount rate of 8% was used to calculate cash flows. According to the calculation, the fair value of investment property is approximately EUR 1.200 thousand.

Group and Company	Carrying amount		Fair value (Level 3)	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Investment property	1,331,302	804,401	1,200,000	1,000,000
Total	**1,331,302**	**804,401**	**1,200,000**	**1,000,000**

7. Inventories

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Raw materials	4,038,863	3,929,244	1,457,733	1,381,170
Work in progress	1,237,088	1,138,351	684,569	529,320
Finished goods	4,062,856	3,464,484	2,192,929	1,493,478
Goods in transit	205,357	64,992	156,598	19,570
Prepayments	420,947	210,584	20,822	13,000
Total:	**9,965,111**	**8,807,655**	**4,512,651**	**3,436,538**

As at 31 December 2017, the cost of the Group's and the Company's inventories was decreased by EUR 262 thousand and EUR 259 thousand, respectively (31 December 2016: EUR 209 thousand and EUR 204 thousand, respectively) to net realisable value. Net realisable value adjustment was accounted for under cost of sales.

As described in the Note 13, as at 31 December 2017 the Group and the Company have pledged inventory with a carrying value of EUR 4,803 thousand and EUR 1,158 thousand respectively (31 December 2016: EUR 4,691 thousand and EUR 1,158 thousand, respectively) as a collateral to the banks for the loans received.

8. Accounts receivable

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Trade receivables, gross	14,433,469	11,777,250	10,234,888	7,686,604
Loans issued to subsidiary	-	-	-	690,523
Other non-current receivables	287,873	302,236	178,755	126,692
Other receivables, gross	546,441	435,311	283,132	57,042
	15,267,783	**12,514,797**	**10,696,775**	**8,560,861**
Less: allowance for doubtful trade receivables	(143,613)	(209,027)	(129,015)	(57,266)
Total amounts receivable, net	**15,124,170**	**12,305,770**	**10,567,760**	**8,503,595**
from this amount:				
Total non-current receivables	**287,873**	**302,236**	**178,755**	**817,215**
Total current receivables	**14,836,297**	**12,003,534**	**10,389,005**	**7,686,380**

Information on loans provided to related parties is presented under Note 27.

Change in allowance for doubtful trade receivables for the year 2017 and 2016 has been included into general and administrative expenses.

Trade receivables are non-interest bearing and are generally collectible on 7–90 days terms. The carrying amount of the Group's and the Company's trade and other receivables approximates their fair value. Information on receivables from related parties is presented under Note 27.

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

	Group		Company	
	2017	2016	2017	2016
At the beginning of the period	**209,027**	**226,208**	**57,266**	**50,231**
Impairment for the year	71,749	12,813	71,749	12,813
Reversed during the year		(24,216)	-	-
Receivables written off as uncollectible	(137,163)	(5,778)	-	(5,778)
Effect of foreign currency translation	-	-	-	-
At the end of the period	**143,613**	**209,027**	**129,015**	**57,266**

8. Accounts receivable (cont'd)

Impairment allowance booked by the Group and the Company is related to receivables as at 31 December 2017 and 2016.

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

	Receivables neither past due nor impaired	Receivables past due but not impaired					Total
		Less than 30 days	30–60 days	60–90 days	90–360 days	More than 360 days	
2016	10,589,189	1,514,341	122,304	2,095	4,394	73,447	12,305,770
2017	13,037,689	2,007,107	58,769	342	16,633	3,630	15,124,170

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

	Receivables neither past due nor impaired	Receivables past due but not impaired					Total
		Less than 30 days	30–60 days	60–90 days	90–360 days	More than 360 days	
2016	7,804,619	607,097	18,432	-	-	73,447	8,503,595
2017	9,365,392	1,126,626	58,767	342	16,633	-	10,567,760

9. Cash and cash equivalents

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Cash at bank	538,684	566,924	2,143	2,122
Cash on hand	21	40	-	-
TOTAL:	**538,705**	**566,964**	**2,143**	**2,122**

As at 31 December 2017, bank accounts of the Group amounting to EUR 5 thousand (2016: EUR 18 thousand) and the Company amounting to EUR 2 thousand (2016: EUR 2 thousand) are pledged to banks for loans, as described further in Note 13. As at 31 December 2017 and 2016, there were no restrictions on use of cash balances held in the pledged accounts.

10. Share capital and reserves

Share capital

The share capital of the Company was EUR 19,053,000 as at 31 December 2017 and as at 31 December 2016. It is divided into 65,700 thousand ordinary registered shares with the nominal value of EUR 0.29 each.

All shares of the Company are fully paid. The Company does not have any other classes of shares than the aforementioned ordinary shares, there are no restrictions of share rights or special control rights for the shareholders set in the Articles of Association of the Company. No shares of the Company are held by itself or its subsidiaries. No convertible securities, exchangeable securities or securities with warrants are outstanding; likewise, there are no outstanding acquisition rights or undertakings to increase share capital as at 31 December 2017 and 2016.

10. Share capital and reserves (cont'd)

As at 31 December 2017 and 31 December 2016 the shareholders of the Company were:

	2017		2016	
	Number of shares	**Proportion of ownership, %**	**Number of shares**	**Proportion of ownership, %**
Lithuanian legal entities	31,467,706	47.9	31,186,589	47.5
Lithuanian individuals	30,120,594	45.8	30,149,420	45.9
Foreign legal entities	2,772,465	4.2	3,047,063	4.6
Foreign individuals	1,339,235	2.1	1,316,928	2.0
TOTAL:	**65,700,000**	**100**	**65,700,000**	**100**

Three major shareholders as at 31 December 2017 and 31 December 2016 are listed below:

	2017		2016	
	Number of shares	**Proportion of ownership, %**	**Number of shares**	**Proportion of ownership, %**
UAB Ginvildos investicija	28,582,407	43.50	28,582,407	43.50
Mišeikienė Irena Ona	7,837,585	11.93	7,857,585	11.96
Norimantas Stankevičius	2,898,628	4.41	2,898,628	4.41
TOTAL:	**39,318,620**	**59.84**	**39,338,620**	**59.87**

Share premium

The Company's authorised capital was increased after the additional issue of shares of the total nominal value of EUR 1,650,834 (LTL 5,700,000), following the resolutions of the annual general meeting of shareholders of the Company held on 26 April 2013. The nominal value per share is EUR 0.29 (before – LTL 1), while the emission of shares was issued for EUR 0.51 per share (equivalent in LTL – 1.76). Share premium is a difference between the nominal value and emission price of shares, less expenses related to emission of shares.

Reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of distributable retained earnings calculated for statutory reporting purposes are required until the reserve reaches 10% of the share capital. In 2016, the legal reserve was fully formed. In accordance with legislation, the reserve can be used to cover the company's losses.

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

The reserve for own shares was formed by the decision of shareholders adopted on 29 April 2016 at a general meeting. The reserve was formed to restrict the use of profit and to cover the acquisition cost of own shares.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instrument used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

11. Capital management

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

11. Capital management (cont'd)

The Group and the Company manage their capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of their activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the year ended 31 December 2017.

The Group and the Company are obliged to maintain its equity at not less than 50% of its share capital (comprised of share capital and share surplus), as imposed by the Law on Companies of the Republic of Lithuania. As at 31 December 2017 and 2016, the Company was in compliance with the aforementioned requirement.

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

	Group		Company	
	2017	**2016**	**2017**	**2016**
Non-current liabilities (excluding subsidies, grants and deferred tax liability)	18,639,546	28,056,716	7,602,882	10,214,815
Current liabilities	37,444,036	39,172,838	21,028,185	20,595,875
Total liabilities	**56,083,582**	**67,229,554**	**28,631,067**	**30,810,690**
Equity, attributable to equity holders of the Company	**56,001,844**	**49,560,527**	**39,942,891**	**38,899,468**
Debt to equity ratio	**100%**	**136%**	**72%**	**79%**

12. Grants and subsidies

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

	Group	Company
Balance as at 31 December 2015	**4,484,121**	**2,983,606**
Received	-	-
Amortisation	(806,117)	(511,817)
Balance as at 31 December 2016	**3,678,004**	**2,471,789**
Received	154,400	154,400
Amortisation	(796,100)	(507,087)
Balance as at 31 December 2017	**3,036,304**	**2,119,102**

The grants mainly consist of the funds received from the EU for the purpose of construction of structures, acquisition of machinery and equipment (non-current assets).

On 18 August the Company signed a financing and monitoring agreement with the Lithuanian Environmental Investment Fund for EUR 154,000. In 2016 the Company and the Group had no subsidized projects.

The amortisation of grants is accounted for under cost of sales in profit or loss and reduces the depreciation of related asset expenses.

13. Borrowings

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Non-current borrowings:				
Bank borrowings secured by the Group's/Company's assets	18,354,280	27,458,313	7,426,463	9,923,551
	18,354,280	**27,458,313**	**7,426,463**	**9,923,551**
Current borrowings:				
Current portion of non-current bank borrowings secured by the Group's/Company's assets	15,091,131	16,743,536	8,247,202	9,700,536
Current bank borrowings secured by the Group's/Company's assets	1,928,034	748,432	1,218,058	124,943
	17,019,165	**17,491,968**	**9,465,260**	**9,825,479**
TOTAL:	**35,373,445**	**44,950,281**	**16,891,723**	**19,749,030**

Movement of liabilities related to financing activities during the year is presented in the table below:

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Opening balance	**44,950,281**	**33,949,682**	**19,749,030**	**17,630,883**
Loans received	1,032,571	20,080,134	1,032,571	7,946,429
Loans repaid	(11,789,009)	(6,631,566)	(4,982,993)	(3,546,046)
Received (repaid) credit lines	1,179,602	(2,447,969)	1,093,115	(2,282,236)
Interest calculated	769,199	707,132	331,067	349,622
Interest paid	(769,199)	(707,132)	(331,067)	(349,622)
Closing balance	**35,373,445**	**44,950,281**	**16,891,723**	**19,749,030**

Borrowings at the end of the year according to currency:

	Group		Company	
	2017	2016	2017	2016
EUR	35,373,445	44,950,281	16,891,723	19,749,030
TOTAL:	**35,373,445**	**44,950,281**	**16,891,723**	**19,749,030**

As at 31 December 2017 the Group and the Company had unused non-current borrowings and overdrafts of EUR 3,190 thousand and EUR 1,229 thousand, respectively (31 December 2016: EUR 5,101 thousand and EUR 3,355 thousand, respectively).

Information on borrowings from related parties is presented under Note 27.

Compliance with loan covenants

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

As at 31 December 2017, the Group and the Company were in compliance with all the aforementioned loan covenants. As at 31 December 2016, the Company was in compliance with all the aforementioned loan covenants. As at 31 December 2016, the Group was not in compliance with bank terms for the loans which amounted to EUR 18,465 thousand; however, until 31 December 2016 the management received a confirmation from the bank that as at 31 December 2016 the loan was not payable on demand.

13. Borrowings (cont'd)

Interest rates

The Group and the Company face risk due to possible interest rate fluctuation. Actual interest rates are close to effective interest rates. As at 31 December 2017 the Company's and the Group's interest rates are variable and depend on EURIBOR (2016: LIBOR or EURIBOR) and on the margin agreed with the bank which meets the market conditions. In 2017 and 2016, the period of re-pricing of floating interest rates on borrowings varies from 1 month to 6 months.

In 2016 the Group and the Company have entered into a fixed-rate interest swap agreement. At 31 December 2017, the Group loans amounting to EUR 26.964 thousand and the Company's loans amounting to EUR 12.904 thousand were hedged until 2020.

For analysis of liquidity risk please refer to Note 3.

Pledged assets

For bank loans the Group and the Company have pledged property, plant and equipment (Note 4), intangible assets (Note 5), inventories (Note 7), trade accounts receivable (Note 8), bank accounts (Note 9). Shares of Grigeo investicijų valdymas UAB and Grigeo Klaipėda AB are also pledged for the bank loans.

Terms and debt repayment schedule

The following interest rate bases are set for the borrowings as at 31 December 2017:

Group	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	EUR	EURIBOR	2018	709,976
Overdraft	EUR	EURIBOR	2018	1,218,058
Secured bank loan	EUR	EURIBOR	2018	1,055,556
Secured bank loan	EUR	EURIBOR	2020	4,717,544
Secured bank loan	EUR	EURIBOR	2021	4,736,841
Secured bank loan	EUR	EURIBOR	2018	456,693
Secured bank loan	EUR	EURIBOR	2019	1,257,031
Secured bank loan	EUR	EURIBOR	2018	3,450,000
Secured bank loan	EUR	EURIBOR	2021	14,060,089
Secured bank loan	EUR	EURIBOR	2018	1,161,657
Secured bank loan	EUR	EURIBOR	2020	2,000,000
Secured bank loan	EUR	EURIBOR	2018	550,000
	TOTAL:			**35.373.445**

Company	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	EUR	EURIBOR	2018	1,218,058
Secured bank loan	EUR	EURIBOR	2018	1,055,556
Secured bank loan	EUR	EURIBOR	2020	4,717,544
Secured bank loan	EUR	EURIBOR	2021	4,736,841
Secured bank loan	EUR	EURIBOR	2018	456,693
Secured bank loan	EUR	EURIBOR	2019	1,257,031
Secured bank loan	EUR	EURIBOR	2018	3,450,000
	TOTAL:			**16.891.723**

13. Borrowings (cont'd)

The following interest rate bases are set for the borrowings as at 31 December 2016:

Group	Currency	Nominal interest rate base		Repayment period	Carrying amount
Overdraft	EUR	EURIBOR		2017	124,943
Overdraft	EUR	EURIBOR		2017	623,489
Secured bank loan	EUR	EURIBOR		2018	1,337,037
Secured bank loan	EUR	EURIBOR		2017	6,570,857
Secured bank loan	EUR	EURIBOR		2021	5,059,905
Secured bank loan	EUR	EURIBOR		2018	1,141,732
Secured bank loan	EUR	EURIBOR		2018	1,257,031
Secured bank loan	EUR	EURIBOR		2018	4,257,525
Secured bank loan	EUR	EURIBOR		2021	18,465,089
Secured bank loan	EUR	EURIBOR		2018	1,799,657
Secured bank loan	EUR	EURIBOR		2018	2,313,016
TOTAL:					**44,950,281**

Company	Currency	Nominal interest rate base	Repayment period	Carrying amount
Overdraft	EUR	EURIBOR	2017	124,943
Secured bank loan	EUR	EURIBOR	2018	1,337,037
Secured bank loan	EUR	EURIBOR	2017	6,570,857
Secured bank loan	EUR	EURIBOR	2021	5,059,905
Secured bank loan	EUR	EURIBOR	2018	1,141,732
Secured bank loan	EUR	EURIBOR	2018	1,257,031
Secured bank loan	EUR	EURIBOR	2018	4,257,525
TOTAL:				**19,749,030**

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

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Within one year	15,091,131	16,743,536	8,247,202	9,700,536
In the period of two to five years	18,354,280	27,458,313	7,426,463	9,923,551
After 5 years	-	-	-	-
TOTAL:	**33,445,411**	**44,201,849**	**15,673,665**	**19,624,087**

14. Finance lease obligations

The assets leased by the Group and the Company under finance lease contracts mainly consist of vehicles, machinery and equipment. The terms of the finance lease agreements are from 1 to 5 years. The currency of the finance lease agreements is EUR.

As at 31 December 2017, the interest rate on the finance lease obligations is 6-month EURIBOR or 6-month EUR LIBOR (as at 31 December 2016: fluctuates from 6-month EURIBOR or 6-month EUR LIBOR).

14. Finance lease obligations (cont'd)

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

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Within one year	207,244	476,771	67,238	216,238
From one to five years	15,540	223,898	6,173	73,411
Total finance lease obligations	**222,784**	**700,669**	**73,411**	**289,649**
Interest	(1,515)	(8,308)	(486)	(2,891)
Present value of finance lease obligations	**221,269**	**692,361**	**72,925**	**286,758**
Finance lease obligations are accounted for as:				
- current	205,769	469,974	66,763	213,833
- non-current	15,500	222,387	6,162	72,925

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

15. Non-current employee benefits

As at 31 December 2017 and 2016, the Group and the Company accounted for non-current employee benefits for employees leaving the Group or the Company at the age of retirement. Related expenses are included into operating expenses in profit or loss.

	Group	Company
As at 31 December 2015	163,263	92,855
Change during the year 2016	(11,876)	(12,090)
As at 31 December 2016	151,387	80,765
Change during the year 2017	(1,945)	21,361
As at 31 December 2017	149,442	102,126

Actuarial gains and losses during 2017 and 2016 were insignificant; therefore, they were not separated and disclosed in other comprehensive income.

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

	As at 31 December 2017	As at 31 December 2016
Discount rate	0.31%	1.04%
Anticipated annual salary increase	5.00%	5.00%

16. Trade payables and other current liabilities

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

- Trade payables are non-interest bearing and are normally settled on 10 to 120-day terms,
- Other payables are non-interest bearing and have an average term of one month.

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Trade payables	16,430,016	18,257,849	10,116,572	9,275,669
Taxes, salaries and social insurance	2,050,348	1,948,504	1,043,163	860,654
Advances received	599,082	159,829	47,916	39,610
Other payables	791,959	844,691	269,787	380,630
TOTAL:	**19,871,405**	**21,210,873**	**11,477,438**	**10,556,563**
From this amount:				
Financial liabilities (Note 3)	17,221,975	19,102,540	10,386,359	9,656,299
Non-financial liabilities	2,649,430	2,108,333	1,091,079	900,264

17. Segment information

Operating segments

For decision taking purposes, the Group and the Company are organized into three operating business units based on their products produced and have three reportable segments: paper and paper products, hardboard and wood processing, raw material for corrugated cardboard and related production. The Group and the Company analyse segment information only up to gross profit, as other operating income and finance income and expenses are not attributed to any segment. Segment information about these business segments is presented below:

Group 2017	Paper and paper products	Hardboard	Raw material for corrugated cardboard and related production	Total disclosed segments	Unallocated	Elimination	TOTAL
Sales	46,257,256	15,587,347	66,832,013	128,676,616	1,190,467	-	129,867,083
Sales between segments	-	(520,727)	(16,298,210)	(16,818,937)	(3,368,950)	20,187,887	-
Unconsolida-ted segment sales	46,257,256	16,108,074	83,130,223	145,495,553	4,559,417	(20,187,887)	129,867,083
Cost of sales	(38,312,480)	(13,515,778)	(52,842,366)	(104,670,624)	(1,000,244)	-	(105,670,868)
Gross profit	**7,944,776**	**2,071,569**	**13,989,647**	**24,005,992**	**190,223**	-	**24,196,215**
Depreciation and amortisation	5,374,667	2,026,215	5,982,671	13,383,553	1,169,246	-	14,552,799
Segment property, plant and equipment, investment property and intangible assets	32,277,652	5,383,974	41,427,224	79,088,850	5,535,558	-	84,624,408
Goodwill	-	-	3,001,072	3,001,072	-	-	3,001,072
Segment capital expenditure	1,023,354	104,861	1,583,184	2,71,399	876,460	-	3,587,859

17. Segment information (cont'd)

Group 2016	Paper and paper products	Hardboard	Raw material for corrugated cardboard and related production	Total disclosed segments	Unallocated	Elimination	TOTAL
Sales	36,935,434	15,979,600	48,570,557	101,485,591	975,756	-	102,461,347
Sales between segments		(769,463)	(7,454,072)	(8,223,535)	(4,128,487)	12,352,022	-
Unconsolidated segment sales	36,935,434	16,749,063	56,024,629	109,709,126	5,104,243	(12,352,022)	102,461,347
Cost of sales	(30,616,729)	(13,265,654)	(40,378,545)	(84,260,928)	(711,236)		(84,972,164)
Gross profit	**6,318,705**	**2,713,946**	**8,192,012**	**17,224,663**	**264,520**	-	**17,489,183**
Depreciation and amortisation	4,722,262	1,295,805	4,605,646	10,623,713	1,176,585	-	11,800,298
Segment property, plant and equipment, investment property and intangible assets	36,576,583	7,324,123	45,915,745	89,816,451	5,879,775	-	95,696,226
Goodwill	-	-	3,001,072	3,001,072	-	-	3,001,072
Segment capital expenditure	9,952,793	684,373	17,715,824	28,352,990	837,288	-	29,190,278

[1] Unallocated sales include sales not attributable to either of the listed segments, namely sales of heating energy (steam) (as the Company has its own steam house) and other utilities.
[2] Unallocated cost of sales includes costs related to unallocated sales, identifiable as expenses for purchases of wood and gas needed for energy production.
[3] Unallocated depreciation and amortisation, property, plant and equipment and intangible assets, and capital expenditure are related to energy and other utilities services sales.

Company 2017	Paper and paper products	Raw material for corrugated cardboard, and related production	Total disclosed segments	Unallocated	TOTAL
Sales	46,257,256	20,159,427	66,416,683	4,559,417	70,976,100
Cost of sales	(38,312,480)	(16,804,462)	(55,116,942)	(4,445,763)	(59,562,705)
Gross profit	**7,944,776**	**3,354,965**	**11,299,741**	**113,654**	**11,413,395**
Depreciation and amortisation	5,374,667	1,436,974	6,811,641	1,169,246	7,980,887
Segment property, plant and equipment, investment property and intangible assets	32,277,652	7,674,845	39,952,497	5,535,558	45,488,055
Segment capital expenditure	1,023,354	498,071	1,521,425	876,460	2,397,885

Company 2016	Paper and paper products	Raw material for corrugated cardboard, and related production	Total disclosed segments	Unallocated	TOTAL
Sales	36,935,434	14,919,162	51,854,596	5,104,243	56,958,839
Cost of sales	(30,616,729)	(11,990,983)	(42,607,712)	(4,930,757)	(47,538,469)
Gross profit	**6,318,705**	**2,928,179**	**9,246,884**	**173,486**	**9,420,370**
Depreciation and amortisation	4,722,262	1,223,354	5,945,616	1,176,585	7,122,201
Segment property, plant and equipment, investment property and intangible assets	36,576,583	8,632,784	45,209,367	5,879,775	51,089,142
Segment capital expenditure	9,952,793	2,148,924	12,101,717	837,288	12,939,005

[1] Unallocated sales include sales not attributable to either of the listed segments, namely sales of heating energy (steam) (as the Company has its own steam house) and other utilities services.
[2] Unallocated cost of sales includes costs related to unallocated sales, identifiable as expenses for purchases of wood needed for energy production and other utilities services.
[3] Unallocated depreciation and amortisation, property, plant and equipment, investment property and intangible assets, and capital expenditure are related to energy and sales of other utilities services.

17. Segment information (cont'd)

Payroll related expenses included in the Group's and the Company's cost of sales in 2017 amount to EUR 11,642 thousand and EUR 5,258 thousand, respectively (in 2016: EUR 9,931 thousand and EUR 4,394 thousand, respectively).

Split by countries

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

	Group		Company	
	2017	2016	2017	2016
Domestic market (Lithuania)	**43,081,573**	**34,589,918**	**29,013,564**	**26,810,661**
Foreign market				
Poland	37,966,578	23,899,010	14,822,653	6,074,902
Estonia	8,186,775	6,558,128	6,365,046	5,131,982
Latvia	7,656,728	6,324,566	7,186,229	5,905,137
Ukraine	6,424,902	5,329,575	693,336	1,045,844
Finland	6,190,635	6,127,619	3,447,550	2,859,806
Denmark	5,189,986	5,989,184	4,206,459	4,867,678
Sweden	4,656,662	4,220,585	3,198,520	2,069,647
Belarus	2,035,387	1,502,867	734,383	401,272
Great Britain	1,742,553	2,491,890	39,770	802,648
The Netherlands	1,389,153	853,834	536,991	91,298
Germany	1,356,596	783,089	68,783	43,756
Czech Republic	1,311,823	1,462,675	5,224	-
Austria	796,627	94,911	-	-
Russia	762,421	830,533	304,979	417,306
Italy	336,129	97,138	20,000	-
Hungary	295,133	431,863	59,314	89,331
Other countries	228,719	484,500	153,053	221,511
France	154,110	171,543	15,652	1,908
Norway	104,594	107,527	104,594	107,527
Slovakia	-	110,392	-	16,625
Foreign market, total	**86,785,511**	**67,871,429**	**41,962,536**	**30,148,178**
TOTAL:	**129,867,083**	**102,461,347**	**70,976,100**	**56,958,839**

Property, plant and equipment and investment property location:

	Group		Company	
	2017	2016	2017	2016
Lithuania	83,026,077	94,356,972	45,249,503	50,859,604
Ukraine	259,337	396,726	-	-
TOTAL:	**83,285,414**	**94,753,698**	**45,249,503**	**50,859,604**

18. Other operating income

	Group		Company	
	2017	2016	2017	2016
Profit from sale of emission allowances	258,825	284,800	179,075	142,400
Rental income	19,329	82,097	15,608	73,108
Gain from disposal of property, plant and equipment	303,049	64,003	175,071	18,920
Gain on sale of scrap	66,864	163,787	20,352	16,549
Insurance compensations	70,081	81,987	10,747	57,475
Other income	197,677	238,647	446,336	156,370
TOTAL:	**915,825**	**915,321**	**847,189**	**464,822**

19. Other operating expenses

	Group		Company	
	2017	2016	2017	2016
Expenses related to rented property	-	-	714	2,854
Expenses from insured events	52,373	100,147	6,522	60,554
Other expenses	240,911	211,562	395,064	168,635
TOTAL:	**293,284**	**311,709**	**402,300**	**232,043**

20. Selling and distribution expenses

	Group		Company	
	2017	2016	2017	2016
Fuel and transportation services	6,047,584	4,762,272	2,698,501	1,879,421
Mediation, marketing, promotion and representation	1,977,330	1,383,963	1,961,975	1,316,595
Salaries and social insurance	1,606,227	1,297,801	1,130,892	874,494
Asset repair and maintenance	193,493	132,072	191,103	128,933
Depreciation and amortisation	146,528	145,905	85,886	79,644
Other sales expenses	444,933	462,361	270,959	323,789
TOTAL:	**10,416,095**	**8,184,374**	**6,339,316**	**4,602,876**

21. General and administrative expenses

	Group		Company	
	2017	2016	2017	2016
Salaries and social insurance	2,425,325	2,240,256	1,336,721	1,111,342
Taxes, except for income tax	537,587	529,521	228,870	204,747
Asset repair and maintenance	297,538	263,460	166,201	113,943
Depreciation and amortisation	179,482	243,812	97,189	152,480
Security services	247,743	226,896	61,751	61,599
Insurance services	90,305	98,304	18,617	22,117
Bank charges	35,423	62,875	12,869	18,560
Advertising and representation	116,055	79,464	54,135	35,602
Professional services	85,439	61,733	44,551	20,154
Consulting services	18,816	34,286	14,400	16,000
Fuel and transportation services	45,752	45,968	24,875	22,549
Listing of securities and related costs	33,979	34,018	33,979	34,018
Support	119,003	238,709	118,426	231,682
Communication services	23,933	27,138	9,266	7,996
Allowance (reversal) for impairment of doubtful receivables	70,749	11,813	71,749	12,813
Other administrative expenses	938,001	636,632	464,095	301,237
TOTAL:	**5,265,130**	**4,834,885**	**2,757,694**	**2,366,839**

22. Finance income and expenses

	Group		Company	
	2017	2016	2017	2016
Interest income	7,980	11,626	22,875	28,718
Foreign exchange gains, net value	14,156	3,610	-	-
Dividends received	-	-	475,051	898,000
Other finance income	11,212	2,176	5,849	1,220
Total finance income	**33,348**	**17,412**	**503,775**	**927,938**
Interest on loans and leases	(717,625)	(590,734)	(318,994)	(335,469)
Net foreign exchange losses	-	-	(463)	(204)
Other finance expenses	(3,481)	(1,731)	(2,740)	(1,132)
Total finance expenses	**(721,106)**	**(592,465)**	**(322,197)**	**(336,805)**
Finance income and expenses, net	**(687,758)**	**(575,053)**	**181,578**	**591,133**

The Group and the Company capitalise borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. In 2017 the Group and the Company capitalised borrowing costs of EUR 13,767 and 13,767, respectively (in 2016: EUR 116,503 and EUR 51,236, respectively). Interest rate is 1.35% + 6-month EUROLIBOR.

Foreign exchange profit in the Group in 2017 and 2016 is generated by subsidiary Mena Pak PAT, which is operating in Ukraine.

23. Income tax

Components of income tax expenses	Group		Company	
	2017	2016	2017	2016
Current income tax	852,888	441,769	229,407	178,506
Correction of income tax for previous periods	(59,559)	(2,240)	(7,323)	29,207
Deferred income tax (income)	(1,645,296)	(425,536)	(880,912)	(42,543)
Income tax expenses (income) recorded in profit or loss	**(851,967)**	**13,993**	**(658,828)**	**165,170**

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

	Group		Company	
	2017	2016	2017	2016
Profit before tax	**8,449,773**	**4,498,483**	**2,942,852**	**3,274,567**
Income tax expenses computed at 15%	1,267,466	674,772	441,428	491,185
Effect of higher tax rate in Ukraine	5,668	272	-	-
Effect of change in tax rate	-	-	-	-
Change in not recognised deferred tax asset	(2,317,035)	(611,945)	(1,110,319)	(290,553)
Use of investment exemption for the current year	-	(199,917)	-	-
Correction of income tax for previous periods	(59,559)	(2,240)	(7,323)	29,207
Non-deductible expenses	262,451	166,848	90,640	79,029
Non-taxable income	(10,958)	(13,797)	(73,254)	(143,698)
Income tax expenses (income) reported in profit or loss	**(851,967)**	**13,993**	**(658,828)**	**165,170**

The biggest impact of the change in the Company's unrecognized corporate income tax is the investment exemption which as at 31 December 2017 amounts to EUR 1,040 thousand for the Company, and EUR 2,196 thousand for the Group (31 December 2016: EUR 171 thousand for the Company and EUR 547 thousand for the Group).

23. Income tax (cont'd)

	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
Deferred income tax asset				
Allowance for accounts receivable	21,542	31,354	19,352	8,590
Investment incentive	5,770,984	6,269,232	3,850,635	4,011,341
Write-down of inventories to net realisable value	39,339	31,327	38,776	30,558
Non-current employee benefits	22,408	22,708	15,319	12,115
Vacation accrual	152,508	131,865	98,557	78,822
Tax loss carry forward	-	-	-	-
Other accruals	24,483	6,278	-	-
Deferred income tax asset	**6,031,264**	**6,492,764**	**4,022,639**	**4,141,426**
Less: not recognised amount	(3,388,767)	(5,403,493)	(2,558,463)	(3,510,789)
Deferred income tax asset, net of valuation allowance	**2,642,497**	**1,089,271**	**1,464,176**	**630,637**
Deferred income tax liability				
Intangible assets (land lease right)	(87,658)	(88,817)	-	-
Property, plant and equipment (investment incentive)	(14,784)	(15,485)	(1,025)	(1,727)
Property, plant and equipment revaluation (deemed cost)	(603,849)	(699,544)	(96,409)	(146,563)
Property, plant and equipment (repairs incentive)	(13,454)	(13,943)	(13,454)	(13,943)
Capitalised borrowing costs	(36,133)	(32,161)	(36,133)	(32,161)
Deferred income tax liability	**(755,878)**	**(849,950)**	**(147,021)**	**(194,394)**
Deferred income tax, net	**1,886,619**	**239,321**	**1,317,155**	**436,243**

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

23. Income tax (cont'd)

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

Group	As at 31 December 2015	Recognised in profit or loss	As at 31 December 2016	Recognised in profit or loss	As at 31 December 2017
Intangible assets	(599,836)	7,724	(592,112)	7,724	(584,388)
Property, plant and equipment (investment incentive)	(129,993)	26,754	(103,239)	4,680	(98,559)
Property, plant and equipment	(5,131,265)	467,638	(4,663,627)	637,972	(4,025,655)
Investment incentive	19,739,824	22,055,056	41,794,880	(3,321,655)	38,473,225
Property, plant and equipment (repairs incentive)	(96,212)	3,259	(92,953)	3,259	(89,694)
Non-current employee benefits	163,263	(11,876)	151,387	(1,997)	149,390
Allowance for accounts receivable	226,208	(17,181)	209,027	(65,414)	143,613
Write-down to net realisable value	339,950	(131,106)	208,844	53,414	262,258
Vacation accrual	820,814	58,289	879,103	137,617	1,016,720
Tax loss carry forward	-	-	-	-	-
Capitalised borrowing costs	(218,748)	4,343	(214,405)	(26,483)	(240,888)
Other	157,240	(115,388)	41,852	121,365	163,217
Total temporary differences	**(703,147)**	**2,716,492**	**37,618,757**	**(2,449,518)**	**35,169,239**
Not recognised amount	(16,512,679)	(19,510,604)	(36,023,283)	13,431,497	(22,591,786)
Total temporary differences recognised	**(1,241,434)**	**2,836,908**	**1,595,474**	**10,981,979**	**12,577,453**
Deferred income tax, net	**(186,216)**	**425,536**	**239,321**	**1,647,297**	**1,886,619**
Change in temporary differences		425,536		1,647,297	

As at 31 December 2017, the Group has an unrecognized deferred income tax of EUR 22,591,786 from the temporary differences (as at 31 December 2016: EUR 36,023,283). The biggest part of this is related to an investment incentive (EUR 22,185,915 as at 31 December 2017 and EUR 35,605,412 as at 31 December 2016), as well as the decrease in the carrying amount of receivables and the write-down of inventories to net realizable value (EUR 405,871 as at 31 December 2017 and EUR 208.936 as at 31 December 2016). The increased use of the investment incentive has been calculated due to changed legislation as starting from 1 January 2018 it is allowed to cover 100% of tax loss for the current year with the investment incentive (50% was allowed before). The remaining part of deferred tax is not recognized because the Company and the Group management does not have sufficient evidence that enough tax profit will be earned.

23. Income tax (cont'd)

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

Company	As at 31 December 2015	Recognised in profit or loss	As at 31 December 2016	Recognised in profit or loss	As at 31 December 2017
Property, plant and equipment (investment incentive)	(16,728)	5,214	(11,514)	4,680	(6,834)
Property, plant and equipment	(1,276,931)	299,839	(977,092)	334,367	(642,725)
Investment incentive	19,619,392	7,122,883	26,742,275	(1,071,377)	25,670,898
Property, plant and equipment (repairs incentive)	(96,212)	3,259	(92,953)	3,259	(89,694)
Non-current employee benefits	92,855	(12,090)	80,765	21,361	102,126
Allowance for accounts receivable	50,231	7,035	57,266	71,749	129,015
Write-down of inventories to net realisable value	332,275	(128,557)	203,718	54,790	258,508
Vacation accrual	495,426	30,052	525,478	131,566	657,044
Capitalised borrowing costs	(218,748)	4,343	(214,405)	(26,484)	(240,889)
Total temporary differences	**18,981,560**	**7,331,978**	**26,313,538**	**(476,088)**	**25,837,450**
Not recognised amount	(16,356,898)	(7,048,361)	(23,405,259)	6,348,838	(17,056,421)
Total temporary differences recognised	**2,624,662**	**283,617**	**2,908,279**	**5,872,750**	**8,781,029**
Deferred income tax, net	**393,700**	**42,543**	436,243	**880,912**	**1,317,155**
Change in temporary differences		42,543		880,912	

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted for at 15% rate in 2017 and 2016. The deferred tax of the company operating in Ukraine was calculated using 18% tax rate in 2017, 18% in 2016. The expiry date of the use of deferred tax asset from investment incentive applied to entities operating in Lithuania is five years.

24. Basic and diluted earnings per share

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

	Group	
	2017	**2016**
Net profit (loss) attributable to the shareholders	9,157,420	4,419,415
Weighted average number of ordinary shares	65,700,000	65,700,000
Earnings per share (EUR)	**0.14**	**0.07**

	Company	
	2017	**2016**
Net profit (loss) attributable to the shareholders	3,601,680	3,109,397
Weighted average number of ordinary shares	65,700,000	65,700,000
Earnings per share (EUR)	**0.05**	**0.05**

25. Dividends per share

	2017	2016
Approved dividends*	2,628,000	1,314,000
Number of shares**	65,700,000	65,700,000
Approved dividends per share (EUR)	**0.04**	**0.02**

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

26. Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)

The Management of the Group and the Company measure adjusted EBITDA as they monitor this performance measure at a consolidated level and on individual company level. They believe this measure is relevant to an understanding of the Group's and the Company's financial performance. Adjusted EBITDA is calculated by adjusting profit from continuing operations to exclude the impact of taxation, net finance costs, depreciation, amortisation, impairment losses/reversals related to goodwill, intangible assets, property plant and equipment. Amortisation of subsidies related to non-current assets which has an impact on net profit is also included.

Adjusted EBITDS is not a defined performance measure in IFRS. The Group's definition of adjusted EBITDA may not be comparable with similar titled performance measures and disclosures by other entities.

	Group		Company	
	As at 31 December 2017	**As at 31 December 2016**	**As at 31 December 2017**	**As at 31 December 2016**
Net profit	**9,301,740**	**4,484,490**	**3,601,680**	**3,109,397**
Income tax	851,967	(13,993)	658,828	(165,170)
Profit before tax	**8,449,773**	**4,498,483**	**2,942,852**	**3,274,567**
Adjustments for:				
Net finance costs	(687,758)	(575,053)	181,578	591,133
Depreciation	(14,390,051)	(11,568,741)	(7,864,927)	(7,004,412)
Amortisation	(162,748)	(231,557)	(115,908)	(117,789)
Amortisation of subsidies (?)	796,100	806,117	507,087	511,817
Adjusted EBIDTA	**22,894,230**	**16,067,717**	**10,235,022**	**9,293,818**

27. Related party transactions

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

- Ginvildos investicija UAB – the main shareholder of the Company;
- Subsidiaries of Grigeo AB (for the list of the subsidiaries, see also Note 1);
- Didma UAB, Statybų namai UAB, Technikos namai UAB (companies related to the members of Supervisory Board).

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

As at 31 December 2017 and 2016, the Group had no guarantees or pledges given or received in respect of the related party payables and receivables.

As at 31 December 2017, the Company had issued a guarantee of EUR 3.162 thousand to secure the bank loans of its subsidiary Grigeo Klaipėda AB (31 December 2016: EUR 3.800 thousand). The Company issued a guarantee of EUR 710 thousand to secure the bank loans of its subsidiary Grigeo Recycling UAB (31 December 2016: EUR 623 thousand).

27. Related party transactions (cont'd)

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

Group 2017	Sale of goods and services	Purchase of goods and services	Amounts receivable *	Amounts payable
Entities with significant influence	-	38,908	-	3,267
Other related companies	10,479	-	1,753	-
TOTAL:	**10,479**	**38,908**	**1,753**	**3,267**

Group 2016	Sale of goods and services	Purchase of goods and services	Amounts receivable *	Amounts payable
Entities with significant influence	31	36,446	-	-
Other related companies	22,271	19,413	1,296	1,618
TOTAL:	**22,302**	**55,859**	**1,296**	**1,618**

* Amounts receivable include prepayments for goods and services.

Company 2017	Sale of goods and services	Purchase of goods and services	Amounts receivable *	Amounts payable **
Entities with significant influence	-	21,082	-	3,267
Subsidiaries	4,222,173	11,227,541	265,189	1,579,779
Other related companies	9,600	-	1,753	-
TOTAL:	**4,231,773**	**11,248,623**	**266,942**	**1,583,046**

Company 2016	Sale of goods and services	Purchase of goods and services	Amounts receivable *	Amounts payable **
Entities with significant influence	31	21,820	-	-
Subsidiaries	4,651,825	8,115,551	830,570	100,895
Other related companies	15,785	12,749	917	1,618
TOTAL:	**4,667,641**	**8,150,120**	**831,487**	**102,513**

* Amounts receivable include prepayments for goods and services and loans issued to subsidiaries.
** Amounts payable also include loans received from subsidiaries.

Sales to Grigeo Baltwood UAB mainly include sales of heating energy (steam) and other utilities services. Purchases from Grigeo Baltwood UAB include purchases of biofuel and waste water treatment services.

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

The Company had no loans from related parties as at 31 December 2017. The Company had a loan receivable from subsidiary Grigeo Klaipėda AB amounting to EUR 691 thousand as at 31 December 2016. The loan was with a fixed annual interest rate, which approximates to the interest rate payable to the bank.

27. Related party transactions (cont'd)

Remuneration of the key management personnel

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

	Group		Company	
	2017	2016	2017	2016
Remuneration of the key management personnel	610,586	593,465	352,415	333,733
Average number of managers	10	10	5	5

In 2017 and 2016 the key management personnel of the Company did not receive any guarantees; no other payments or property transfers were made or accrued. In 2016 the Company paid bonuses to its Supervisory Board and Management Board in total amount of EUR 120 thousand (in 2016: EUR 100 thousand).

As at 31 December 2017 and 2016, the Group and the Company issued loans to the key management personnel of the Company and the Group, amounting to EUR 214 thousand and EUR 114 thousand, respectively (in 2016: EUR 344 thousand and EUR 157 thousand). Loans bear fixed interest rate and mature in 2017–2019. Loans are not secured.

28. Off-balance sheet items

Information on emission allowances

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

The Company received 275,082 units of emission allowances for the period 2013–2020. This period is divided down to the amount of each subsequent year, respectively, from 39,614 emission allowances in 2013 to 29,327 emission allowances in 2020.

Emission allowances	Quantity (not audited)	
	Group	Company
As at 31 December 2015	**15,916**	**(2,363)**
Emission allowances allocated	58,845	35,060
Purchase of emission allowances	-	-
Emission allowances used	(18,591)	(9,487)
Sale of emission allowances	(64,000)	(32,000)
As at 31 December 2016	**(7,830)**	**(8,790)**
Emission allowances allocated	56,924	33,589
Purchase of emission allowances	-	-
Emission allowances used	(19,459)	(7,344)
Sale of emission allowances	(35,700)	(24,700)
As at 31 December 2017	**(6,065)**	**(7,245)**

29. Subsequent events

On 22 March 2017 the management received a letter from the bank confirming the bank's decision to extend repayment terms for two short-term loans of the Company until 2021. The carrying amount of these loans as at 31 December 2017 is EUR 4,505,556.

After the end of the financial year until the date of approval of these financial statements, no other events occurred which would have a material effect on the financial statements or require disclosure.

30. Going concern

As at 31 December 2017, current liabilities of the Group and the Company exceeded their current assets by EUR 11,726 thousand and EUR 5,816 thousand, respectively (2016: EUR 17,395 thousand and EUR 9,253 thousand, respectively). In 2016 the net current liability position was influenced by significant investments made to the property, plant and equipment of the Group and the Company, and in 2017 projects were completed and the investments made were relatively small.

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of credit facilities to meet their commitments at a given date in accordance with its strategic plans. Under effective loan agreements, financial liabilities mature from 2018 to 2021.

Furthermore, as disclosed in Note 13, as at 31 December 2017 the Group and the Company had unused borrowings and overdrafts of EUR 3,190 thousand and EUR 1,229 thousand, respectively (2016: EUR 5,101 thousand and EUR 3,355 thousand, respectively). Also, as disclosed in Note 29, on 22 March 2018 the Group and the Company received a letter from the bank confirming the intention to extend the repayment terms of loans with a residual value of EUR 4,505 thousand as at 31 December 2017 until 2021.

Liquidity management plans are based on further stability of the Group's and the Company's results and on extension of repayment schedules of current liabilities. The Company has prepared a forecast of the Group's operations for 2018. The forecasted EBITDA of Grigeo AB is expected to reach EUR 11.6 million in 2018, while the EBITDA of the Group is planned to reach EUR 22.9 million in 2018.

Due to the aforementioned reasons, the management believes that the Group and the Company can prepare the financial statements based on the going concern principle.

CONSOLIDATED ANNUAL MANAGEMENT REPORT

TABLE OF CONTENTS

1. Reporting period for which this information has been prepared

Reports have been prepared for the twelve months of 2017.

2. Audit information

The consolidated annual management report of Grigeo AB for the year 2017 has been prepared by the Management. The compliance of the financial data presented in the consolidated annual management report with the set of consolidated financial statements for the year 2017 has been checked by an independent auditor.

3. Group companies and their contact details

As at 31 December 2017, the Company had nine subsidiaries: Grigeo Klaipėda AB, Grigeo Baltwood UAB, Grigeo Recycling UAB, Grigeo Recycling SIA, Mena Pak PAT, Grigeo investicijų valdymas UAB, Naujieji Verkiai UAB, Grigeo Packaging UAB and Grigiškių energija UAB.

Status	Issuer	Subsidiary	Subsidiary
Name	**Grigeo** AB	**Grigeo Klaipėda** AB	**Grigeo Baltwood** UAB
Company's ID No.	110012450	141011268	126199731
Authorised capital	19,053,000 Eur	11,890,550.55 Eur	6,100,000 Eur
Shares directly or indirectly controlled by Grigeo AB	Company has not acquired any shares of itself	97.67%**	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	info@grigeo.lt	info.klaipeda@grigeo.lt	info.baltwood@grigeo.lt
Internet address	http://www.grigeo.lt/en	http://www.grigeo.lt/en	http://www.grigeo.lt/en
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	**Grigeo Recycling** UAB	**Grigeo Recycling** SIA	**Mena Pak** PAT
Company's ID No.	302529158	40203001091	00383260
Authorised capital	2,960,000 Eur	2,800 Eur	4,011,470 UAH
Shares directly or indirectly controlled by Grigeo AB	100%*****	100%****	97.92%***
Address	Vilniaus str. 10, Grigiškės, Vilnius	Kārļa Ulmaņa str. 3, Riga, Latvia	Koshevovo str. 6, Chernihiv region, Mena, Ukraine
Phone	+370 5 243 3393	+370 5 243 3393	+380 4644 21341
Fax	-	-	+380 4644 21084
E-mail	info.recycling@grigeo.lt	info.recycling@grigeo.lt	menapack@ukr.net
Internet address	http://www.grigeo.lt/en	-	www.menapack.com.ua
Legal form	Private Limited Liability Company	Private Limited Liability Company	Public Limited Liability Company
Date of registration	16 July, 2010	16 June, 2016	30 December, 1993
Administrator of the register	State Enterprise Centre of Registers	Latvian Republic register of enterprises	Chernihiv region, Mena distr. Public administration

Status	Subsidiary	Subsidiary	Subsidiary	Subsidiary
Name	**Grigeo investicijų valdymas** UAB	**Naujieji Verkiai** UAB	**Grigeo Packaging** UAB	**Grigiškių energija** UAB
Company's ID No.	302416687	300015674	302329061	302674488
Authorised capital	3,709,776 Eur	28,962 Eur	2,900 Eur	2,900 Eur
Shares directly or indirectly controlled by Grigeo AB	100%*	100%*	100%*	100%*
Address	Vilniaus str. 10, Grigiškės, Vilnius	Popieriaus str. 15, Vilnius	Vilniaus str. 10, Grigiškės, Vilnius	Vilniaus str. 10, Grigiškės, Vilnius
Phone	+370 5 243 5933	+370 5 243 59 33	+370 5 243 58 01	+370 5 243 5933
Fax	+370 5 243 58 02	+370 5 243 58 02	+370 5 243 58 02	+370 5 243 58 02
E-mail	vigmantas.kazukauskas@grigeo.lt	info@grigeo.lt	info@grigeo.lt	vigmantas.kazukauskas@grigeo.lt
Internet address	-	-	-	-
Legal form	Private Limited Liability Company	Private Limited Liability Company	Private Limited Liability Company	Private Limited Liability Company
Date of registration	10 July, 2009	6 April, 2004	10 April, 2009	7 October, 2011
Administrator of the register	State Enterprise Centre of Registers	State Enterprise Centre of Registers	State Enterprise Centre of Registers	State Enterprise Centre of Registers

* – Shares directly controlled by Grigeo AB.
** – Shares directly controlled by Grigeo investicijų valdymas UAB.
*** – Shares directly controlled by Grigeo Klaipėda AB.
**** – Shares directly controlled by Grigeo Recycling UAB.
***** – Shares directly controlled by Grigeo investicijų valdymas UAB and Grigeo Klaipėda AB.

4. Mission, vision, values of the companies

We create and deliver our products with a mind of You: our customers, employees, partners and colleagues. We do care on the things that matter to You and the ways we can contribute to Your quality of life enhancement.

Mission – to create and deliver sustainable products enhancing the quality of life.

Vision – to become recognised European manufacturer.

Values

5. Nature of core activities of the group companies

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

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

Core business activities of Grigeo Baltwood UAB are as follows: manufacturing of wood fibre boards.

Core business activities of Mena Pak PAT (In Ukrainian – публічне акціонерне товариство „МЕНА ПАК") are as follows: manufacturing of corrugated board, products from corrugated board.

Core business activities of Grigeo Packaging UAB are as follows: manufacturing of corrugated board, products from corrugated board. The company has not been operating in year 2017.

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 2017.

Core business activity of Grigeo Recycling UAB are as follows: second-hand paper collection and preparation for recycling.

Core business activity of Grigeo Recycling SIA are as follows: second-hand paper collection and preparation for recycling. The company has not been operating in year 2017.

Core business activities of Grigeo investicijų valdymas UAB are as follows: investment activities and corporate governance.

6. Contracts with intermediaries of public trading in securities and credit institutions

The Company has signed a contract with Finasta AB (financial brokerage company) on payment of dividend to the shareholders for 2004 and subsequent financial years. On 21 December 2015 Finasta AB was joined to Siauliu bankas AB, which from that date became successor to all assets, rights and obligations of Finasta AB.

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) on the handling of securities issued by the Company and for making the market for the shares of Grigeo AB.

7. Authorised capital of the issuer

7.1. The authorized capital registered at the Register of Legal Entities

7.1.1. Table. Structure of the authorized capital as at 31 December 2017.

Tape of shares	Number of shares	Par value, EUR	Total value, EUR	Interest in the authorised capital, %
Ordinary registered shares	65,700,000	0.29	19,053,000	100

All shares of Grigeo AB are fully paid up.

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

Grigeo AB has not issued any debt securities or derivative securities to be converted into shares.

7.3. 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 EUR 0.29 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.

8. Shareholders

8.1. Number of shareholders of the Company

As at 31 December 2017 there were 2,725 shareholders of Grigeo AB.

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

8.2. Table. Shareholders owning in excess of 5 per cent of the authorised capital of the Issuer as at 31 December 2017 and/or 31 December 2016.

Shareholder's name (company's name, type, headquarters address, corporate ID number)	31 December 2017			31 December 2016		
	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 str. 10a-2, Vilnius, 125436533	28,582,407	43.50	43.50	28,582,407	43.50	43.50
IRENA ONA MIŠEIKIENĖ	7,837,585	11.93	11.93	7,857,585	11.96	11.96

Information about shareholders of Ginvildos Investicija UAB is further disclosed in chapter 12.

8.3. Shareholders holding special controlling rights

There are no shareholders holding special controlling rights.

8.4. Restrictions of the voting rights

There are no restrictions of the voting rights.

8.5. 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.

9. Information on trading with issuer's securities on the regulated markets

Registered ordinary shares of Grigeo AB are listed in the main list of Nasdaq Vilnius, AB (ticker – GRG1L).

9.1. Key characteristics of the shares of the Company

9.1. Table. Key characteristics of the shares of the Company.

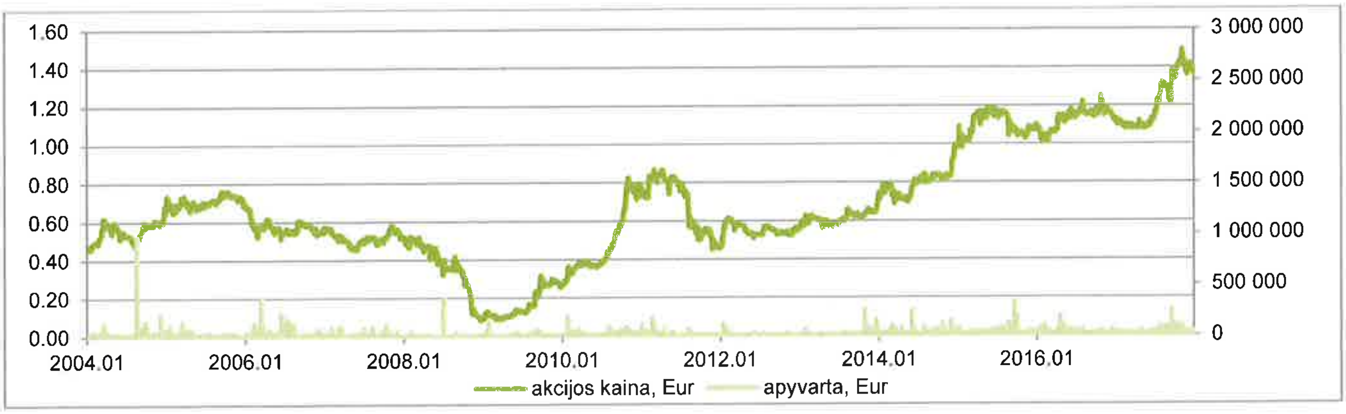
Type of shares	Securities ISIN code	Number of shares	Par value, EUR	Total par value, EUR
Registered ordinary shares	LT0000102030	65,700,000	0.29	19,053,000

9.2. Share trading information

9.2. Table. Share trading information

Reported period	Price, EUR				Turnover, EUR			Total turnover	
	Max.	Min.	Last session	Average	Max.	Min.	Last session	Units	EUR
2013	**0.707**	**0.560**	**0.707**	**0.624**	**252,972**	**0**	**27,847**	**3,490,316**	**2,179,853**
2014, I Q	0.795	0.690	0.730	0.748	97,600	0	1,992	1,173,593	877,683
2014, II Q	0.814	0.695	0.798	0.744	243,318	0	1,995	1,340,247	996,743
2014, III Q	0.845	0.798	0.840	0.820	77,804	0	0	757,732	621,547
2014, IV Q	0.997	0.811	0.980	0.866	144,805	0	1,323	1,073,638	929,449
2014	**0.997**	**0.690**	**0.980**	**0.788**	**243,318**	**0**	**1,323**	**4,345,210**	**3,425,422**
2015, I Q	1.160	0.982	1.160	1.047	76,624	0	8,086	619,999	649,240
2015, II Q	1.190	1.100	1.170	1.155	56,780	0	56,780	639,333	738,494
2015, III Q	1.170	1.040	1.070	1.084	331,209	0	212,477	1,498,711	1,624,843
2015, IV Q	1.100	1.030	1.100	1.066	53,523	116	13,903	487,498	519,606
2015	**1.190**	**0.982**	**1.100**	**1.088**	**331,209**	**0**	**13,903**	**3,245,541**	**3,532,183**
2016, I Q	1.090	1.010	1.080	1.042	102,188	0	10,596	845,479	881,331
2016, II Q	1.180	1.070	1.150	1.128	183,659	454	12,207	1,065,079	1,201,738
2016, III Q	1.220	1.140	1.180	1.169	56,960	0	12,582	379,397	443,588
2016, IV Q	1.250	1.120	1.130	1.177	63,348	0	15,898	597,790	703,627
2016	**1.250**	**1.010**	**1.130**	**1.119**	**183,659**	**0**	**15,898**	**2,887,745**	**3,230,284**
2017, I Q	1.130	1.080	1.090	1.099	39,634	0	3,017	496,998	546,188
2017, II Q	1.130	1.080	1.130	1.100	47,155	0	4,209	488,357	537,049
2017, III Q	1.380	1.150	1.350	1.275	251,837	0	10,143	1,305,203	1,663,852
2017, IV Q	1.490	1.340	1.390	1.403	107,228	0	3,636	906,108	1,271,658
2017	**1.490**	**1.080**	**1.390**	**1.257**	**251,837**	**0**	**3,636**	**3,196,666**	**4,018,748**

9.2. Figure. Share price and turnover 01.01.2004 – 31.12.2017.



9.3. Capitalisation of the Company's shares

9.3. Table. Capitalisation of the Company's shares.

Last session date	Capitalisation, EUR
31.12.2013	**46,447,000**
31.03.2014	47,970,000
30.06.2014	52,422,000
30.09.2014	55,181,000
31.12.2014	**64,391,000**
31.03.2015	76,212,000
30.06.2015	76,869,000
30.09.2015	70,299,000
31.12.2015	**72,270,000**
31.03.2016	70,956,000
30.06.2016	75,555,000
30.09.2016	77,526,000
31.12.2016	**74,241,000**
31.03.2017	71,613,000
30.06.2017	74,241,000
30.09.2017	88,695,000
31.12.2017	**91,323,000**

9.4. 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.

9.5. Own shares buy out

The Company has not bought out own shares.

9.6. Restrictions on shares transfer

There are no restrictions on shares transfer.

9.7. Official takeover bid

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

9.8. Investments made

Information about the main investments made in the reporting period and its size is provided in Note 4 to the financial statements and Chapters 13.1–13.2 of the consolidated annual management report on material events.

10. Employees

In 2017, there were no significant changes in number of employees or salary. Over the twelve months of the year 2017 the number of the Group employees fluctuated naturally. The change of average salary was mostly caused by the following factors: labour market factors and the need and recruitment of workers of higher competences after investment projects were implemented.

10.1. Table. Number of employees of the Group.

	31.12.2017	31.12.2016
Number of employees	809	804

10.2. Table. Number of employees of the Company.

	31.12.2017	31.12.2016
Number of employees	371	357

10.3. Table. Average number of employees, salary and grouping of employees by education of the Group during the twelve months of 2017.

Employees	Average salary, EUR*	Employees by education			
		University	College	Secondary	Basic
Workpeople	1,042	65	203	270	17
Specialists	1,329	126	27	23	1
Managers	2,825	70	2	4	-
Total	**1,282**	**261**	**232**	**297**	**18**

10.4. Table. Average number of employees, salary and grouping of employees by education of the Group during the twelve months of 2016.

Employees	Average salary, EUR*	Employees by education			
		University	College	Secondary	Basic
Workpeople	907	61	172	293	16
Specialists	1,226	126	29	10	-
Managers	2,894	69	4	6	-
Total	**1,184**	**256**	**205**	**309**	**16**

10.5. Table. Average number of employees, salary and grouping of employees by education of the Company during the twelve months of 2017.

Employees	Average salary, EUR	Employees by education			
		University	College	Secondary	Basic
Workpeople	1,065	34	85	105	10
Specialists	1,378	66	11	15	-
Managers	3,094	35	2	3	-
Total	**1,362**	**135**	**98**	**123**	**10**

10.6. Table. Average number of employees, salary and grouping of employees by education of the Company during the twelve months of 2016.

Employees	Average salary, EUR	Employees by education			
		University	College	Secondary	Basic
Workpeople	885	29	74	121	11
Specialists	1,285	62	11	8	-
Managers	2,942	33	3	1	-
Total	**1,194**	**124**	**88**	**130**	**11**

* - information on the average wage is provided without Mena Pak PAT data to show the precise Group average wages unaffected by fluctuations of Ukrainian currency.

11. Amendments to the articles of association of the issuer

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

12. Information on the managing bodies of the issuer

The Company has the general meeting of shareholders, the sole-person managing body – the head of the Company (the President), the collegial managing bodies - supervisory council and audit committee 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 supervisory council elects and revokes the members of the Audit Committee. The Audit Committee of the Company consists of 3 members.

The Supervisory Council represents the shareholders and together with the Audit Committee performs supervisory functions.

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

12.1. Members of the managing bodies

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

Full names	Positions	Education	Tenure	Capital share and votes, %
SUPERVISORY COUNCIL				
Norimantas Stankevičius	Chairman	University	Since 30 April 2015 until the annual General Meeting, to be held in 2019	4.41
Vilius Oškeliūnas	Member	University		-
Romualdas Degutis	Member	University		0.03
Tautvilas Adamonis	Member	University		-
Daiva Duksienė	Member	University		-
AUDIT COMMITTEE				
Norimantas Stankevičius	Member	University	Since 30 April 2015 until the annual General Meeting, to be held in 2019	4.41
Tautvilas Adamonis	Member	University		-
Daiva Duksienė	Member	University		-
BOARD				
Gintautas Pangonis	Chairman	University	Since 30 April 2015 until the annual General Meeting, to be held in 2019	-
Nina Šilerienė	Member	University		0.24
Vigmantas Kažukauskas	Member	University		0.85
Vytautas Juška	Member	University		-
Normantas Paliokas	Member	University		-
ADMINISTRATION				
Gintautas Pangonis	President	University	-	-
Nina Šilerienė	Vice President, Finance	University	-	0.24
Vigmantas Kažukauskas	Vice President, Business Development	University	-	0.85
Vytautas Juška	Vice President, Purchasing & Logistics	University	-	-
Robertas Krutikovas	Director General	University	-	0.30

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

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

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

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

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

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

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

Name, surname	Business participation		Capital interest	
	Name of enterprise, agency and organisation	Positions	Name of enterprise, agency and organisation	Capital share and votes, %
Norimantas Stankevičius	Grigeo AB	Chairman of the supervisory council	Grigeo AB	4.41
	Didma UAB	Project director	Didma UAB	51.0
			Statybų namai UAB	62.0
			Technikos namai UAB	62.0
Vilius Oškeliūnas	Grigeo AB	Member of the supervisory council	Atelier Investment Management UAB	50.0
	Atelier Investment Management UAB	Director	Gerovės valdymas UAB	50.0
	Atelier Investment Management UAB	Member of the board		
	Gerovės valdymas UAB	Wealth manager		
	IM investment UAB	Director		
	Ars Lab Limited, IE	Chairman of the board		
Romualdas Degutis	Grigeo AB	Member of the supervisory council	Grigeo AB	0.03
	Telesat sprendimai UAB	Member of the board	Telesat sprendimai UAB	50.0
	Antena UAB	Chairman of the board	Antena UAB	35.0
	InComSystems UAB	Chairman of the board	InComSystems UAB	60.0
	InComSystems UAB	Project director		
Tautvilas Adamonis	Grigeo AB	Member of the supervisory council		
Daiva Duksienė	Grigeo AB	Member of the supervisory council		
	Autodina UAB	Chief accountant		
	Vilturas UAB	Chief accountant		
	Ginekologijos ir šeimos klinika UAB	Chief accountant		
Gintautas Pangonis	Grigeo AB	President		
	Ginvildos investicija UAB	Director	Ginvildos investicija UAB	100.0
	Grigeo AB	Chairman of the board		
	Grigeo Klaipėda UAB	Chairman of the board		
	Naujieji Verkiai UAB	Chairman of the board		
	Grigeo Baltwood UAB	Chairman of the board		
	Grigeo Packaging UAB	Chairman of the board		
	Grigiškių energija UAB	Chairman of the board		
	Grigeo Recycling UAB	Chairman of the board		
	Grigeo investicijų valdymas UAB	Chairman of the board		

Name, surname	Business participation		Capital interest	
	Name of enterprise, agency and organisation	Positions	Name of enterprise, agency and organisation	Capital share and votes, %
	Mena Pak PAT	Chairman of the supervisory council		
	Grigeo Recycling SIA	Chairman of the supervisory council		
Normantas Paliokas	Elnorma UAB	Director		
	Grigeo AB	Member of the board		
Vigmantas Kažukauskas	Grigeo AB	Vice president, Business Development	Grigeo AB	0.85
	Grigeo AB	Member of the board		
	Grigeo Klaipėda AB	Member of the board		
	Grigeo Baltwood UAB	Member of the board		
	Naujieji Verkiai UAB	Director		
	Naujieji Verkiai UAB	Member of the board		
	Grigeo Packaging UAB	Director		
	Grigeo Packaging UAB	Member of the board		
	Grigiškių energija UAB	Director		
	Grigiškių energija UAB	Member of the board		
	Grigeo investicijų valdymas UAB	Director		
	Grigeo investicijų valdymas UAB	Member of the board		
	Grigeo Recycling SIA	Member of the supervisory council		
Vytautas Juška	Grigeo AB	Vice president, Purchasing & Logistics		
	Grigeo AB	Member of the board		
	Grigeo Klaipėda AB	Member of the board		
	Grigeo Baltwood UAB	Member of the board		
	Grigeo Recycling UAB	Member of the board		
	Grigiškių energija UAB	Member of the board		
	Grigeo Recycling SIA	Deputy Chairman of the Supervisory council		
Nina Šilerienė	Grigeo AB	Vice President, Finance	Grigeo AB	0.24
	Grigeo AB	Member of the board		
	Grigeo Klaipėda AB	Member of the board		
	Naujieji Verkiai UAB	Member of the board		
	Grigeo Baltwood UAB	Member of the board		
	Grigeo Packaging UAB	Member of the board		
	Grigiškių energija UAB	Member of the board		
	Grigeo investicijų valdymas UAB	Member of the board		

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

The Supervisory Council of Grigeo AB was elected on 30 April 2015 for a 4 years' period (ending in 2019). The Board of the Company was elected on 30 April 2015 for a 4 years' period (ending in 2019).

12.5. Information about payments to the members of the managing bodies

12.5. Table. Information on the salaries, tantiemmes and other payments from profit paid by the Issuer within the 2017.

	Salaries, EUR	Tantiemme, EUR	Dividends, EUR	Other payments, EUR
Totally for all members of the supervisory council	-	16,200	116,624	-
In average per one member of the supervisory council	-	3,240	23,325	-
Totally for all members of the board	-	103,800	-	-
In average per one member of the board	-	20,760	-	-
Totally for all members of the administration	352,415	-	36,613	-
In average per one member of the administration	70,483	-	7,323	-

13. Review of activity of the group companies

13.1. Material events in the Issuer's activities

This section contains summary of all Grigeo AB published reports on material event. Full text of reports could be found on the Company's website:
http://www.grigeo.lt/en/for-investors/notices-on-material-events/2017.

28.02.2017 During 2016, the Group achieved the consolidated sales turnover of EUR 102.5 million. During the same period the Company's sales amounted to EUR 57 million.
During the reporting period, the Group earned EUR 4.5 million and the Company earned EUR 3.3 million.

31.03.2017 The Annual General Meeting of Shareholders of Grigeo Grigiškės AB is convened by initiative and the decision of the Board of the Company on the 25 April, 2017, at 11 a.m. It was also decided to propose to allocate EUR 2,628,000 to dividends, i.e. EUR 0.04 for each share, twice the amount of the previous year.

24.04.2017 During the three months of 2017, the Group achieved the consolidate sales turnover of EUR 30.2 million. During the same period the Company's sales amounted to EUR 16.3 million.

25.04.2017 The General Meeting of shareholders of Grigeo Grigiškės AB made the following decisions:
- To approve the set of consolidated and separate financial statements of the Company for the year 2016.
- To approve the appropriation of the Company's profit for the year 2016 according to the draft of profit appropriation presented for the Annual General Meeting of Shareholders.
- To change the name of the Company Grigeo Grigiškės AB to Grigeo AB.
- With regard to the adopted decision above, to amend clauses 1.1. and 1.4. of the Articles of Association of the Company.

02.05.2017 The amended Articles of Association of Grigeo AB were registered.

08.05.2017 During the three months of 2017, the Group achieved the consolidated sales turnover of EUR 30.2 million. During the same period, the Company's sales amounted to EUR 16.3 million.
During the reporting period, the Group earned EUR 1.5 million and the Company earned EUR 1.1 million profit before taxes.

03.08.2017 During the 1st half of 2017, the Group achieved the consolidated sales turnover of EUR 62.3 million. During the same period, the Company's sales amounted to EUR 33.8 million.
During the reporting period, the Group earned EUR 3.4 million and the Company earned EUR 2 million profit before taxes.

31.08.2017 AB Grigeo invested in one of the most high-tech hygiene paper converting lines in the European market, which is in conformity with high safety at work standards.

21.09.2017 AB Grigeo and UAB Grigeo Baltwood signed a letter of intent with the German company Homanit Holding GmbH regarding the sale of 100% of the shares of UAB Grigeo Baltwood.

07.11.2017 During the nine months of 2017, the Group achieved the consolidated sales turnover of EUR 96.2 million. During the same period, the Company's sales amounted to EUR 52.2 million. During the reporting period, the Group earned EUR 6.2 million and the Company earned EUR 2.6 million profit before taxes

20.12.2017 The Board of AB Grigeo approved the budget of 2018.

28.12.2017 AB Grigeo presented preparation of Interim information and financial results release dates in 2018.

13.2. Newest events in the Issuer's activities

This section contains summary of all Grigeo AB published reports on material event. Full text of reports could be found on the Company's website:
http://www.grigeo.lt/en/for-investors/notices-on-material-events/2018.

02.02.2018 AB Grigeo, UAB Grigeo Baltwood and the German company Homanit Holding GmbH agreed to terminate the letter of intent regarding the sale of 100% of the shares of UAB Grigeo Baltwood.

08.02.2018 During 2017, the Group achieved the consolidated sales turnover of EUR 129.9 million. During the same period, the Company's sales amounted to EUR 71 million.
During the reporting period, the Group earned EUR 8.4 million and the Company earned EUR 2.9 million.

13.3. Offices and branches

The Company has Country marketing representatives operating in Latvia and Estonia. No new offices or branches are planned to be opened in 2018.

13.4. Group's markets and risk factors

Information about financial risk management is provided in notes to the audited consolidated financial statements.

Economic risk factors

Paper production. The share of GRITE brand of Grigeo AB in terms of value (without other private labels products produced by the Company) increased by 1.1% and accounted for 23.5% of the Baltic hygienic paper market. Toilet paper market share grew to 26.9%, and of paper towels to 15.6%.

In 2017, we aimed to make maximum use of the new paper machine at work and to significantly increase the quantity of semi-produced paper sold. During the year, 15.700 tonnes of various semi-produced paper were sold to other paper processors.

It is forecasted that in 2018 the hygienic paper market of the Baltic countries will increase by up to 2–3%; likely, mostly in the category of paper towels. It is also planned that the updated range of products and investments into brand awareness in Latvian and Estonian markets will help to increase GRITE brand market share.

It is likely that the retail chains will strengthen product quality and increase the areas on their shelves for their own brands. The quality of private brands is increasing; therefore, they will be increasingly competing with other brands owned by the Company.

In 2018, significant focus will be put on the increase of sales of household and business products, especially those made from cellulose, to end-users (owned brands), at the same time reducing sales of semi-produced paper.

In the export markets, we plan to expand the client base both by offering production of private brand products and by selling GRITE brand products.

Corrugated cardboard packaging products market. In 2017, Grigeo AB sold 35% more packaging than in 2016. Increasing sales were driven by annual investments into new equipment and modernization, focus on ensuring and improving quality, as well as continuous process optimization to increase labour productivity, employee trainings, improvement of their qualifications and competences.

Investments are planned in 2018 into modernization, search of new markets and development to help further increase sales, to guarantee high quality of goods and to be among the leading producers of corrugated cardboard packaging products in Lithuania.

Grigeo AB Group of companies has a complete packaging processing cycle: we purchase waste paper, produce raw cardboard paper, then corrugated cardboard from raw cardboard paper, and finally, packaging from cardboard according to individual needs. The complete packaging processing cycle enables us to offer our customers stable supply and highest quality assurance and traceability from the packaging up to the paper from which the packaging was manufactured as well as competitive prices. In 2017, the main packaging markets included Lithuania, Latvia, Estonia, Finland, and Russia.

Since the main export sales currency is euro, exchange rate risk is at a minimum.

Main risks of this business come from changes in raw materials' prices.

Raw cardboard paper market. In 2017, Grigeo Klaipėda AB generated revenue of EUR 49,701 thousand from operating activities. The main sales plan was exceeded by 2%. If compared to the previous year, sales volumes from operating activities decreased by EUR 14,055 thousand or 39%.

The Company's sales in the Baltic countries in 2017 accounted for 51% of total sales (2016: 47%), in the region of Western and Central Europe, sales accounted for 45% of total sales (2016: 46%), in the CIS countries market – 4% of total sales (2016: 7%)

Wood products market. In 2017, the sales revenue of Grigeo Baltwood UAB amounted to EUR 16.1 million. 84% of production was exported. Other 16% was sold in local market. The main wood product export markets included the Poland, Sweden, United Kingdom and Finland. In 2018, the company plans further expansion in foreign markets.

The main buyers of hardboard production are cabinet and cushioned furniture manufacturers, special packaging manufacturers and users, the DIY (Do-It-Yourself) sector, and construction companies.

Since the main export sales currency is euro, exchange rate risk is at a minimum.

The main risks related to this business arise from potential rise in prices of raw materials.

Ukrainian Business Environment Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. High inflation and drastic changes in local currency rate impedes business management and efforts to sustain profitability.

The period of the reporting year saw stabilisation of production orders, improved settlement for the goods produced and smaller changes in currency rates.

The management of the Group companies believes it is taking all appropriate measures to support the sustainability of the Group's business. Although the impact of the ongoing instability of the business environment is difficult to evaluate, but the Group's management believes that it will not have a significant negative impact on the Group's results.

Social risk factors

Salaries are paid in terms set in collective agreement.

Technical – technological risk factors

In order to improve the technical production assurance level, the Company continuously modernizes its equipment and facilities, purchases new equipment, and automates process management.

In 2017, the Company launched a new paper processing line. This investment will result in an increase of production of household products, widening of product range and quality improvement.

Ecological risk factors

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

The Company pays taxes for used natural resources (water) and for environment pollution (air pollution caused by steam shop, technological equipment and mobile pollution sources, water pollution caused by rain outflows).

Polluted water is cleaned in mechanical way and pumped to Vilnius city biological cleaning complex.

The Company operates the biodegradable waste composting site, which enables natural composting of organic waste in the field environment with the use of industrial and domestic wastewater treatment sludge and wood chips for compost production. The produced compost is used for the reclamation of quarries and other needs.

Management system operating in accordance with ISO 14001 was implemented in 2012. The recertification audit of management systems performed in 2015 by DNV GL Lietuva UAB confirmed that the Company's management systems comply with the requirements of LST EN ISO 9001 and LST EN ISO 14001.

13.5. Suppliers

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

Supplier's country	1–12 months of 2017	1–12 months of 2016
	%	%
Lithuania	56.5	53.6
Finland	19.7	6.6
Poland	7.2	5.0
Estonia	4.2	6.5
Sweden	3.8	7.9
Germany	2.7	3.1
Austria	2.3	0.0
Latvia	1.6	0.9
Italy	0.8	11.1
Russia	0.4	0.0
Other countries	0.8	5.3
TOTAL	**100.0**	**100.0**

13.6. Strategy of the activity and plans for the close future

It is planned that the Group which consists of companies Grigeo AB, Grigeo Baltwood UAB, Grigeo Klaipėda AB, Mena Pak PAT and Grigeo Recycling UAB in the year 2018 will reach a turnover of EUR 142.8 million. The Group's profit before taxes will reach EUR 8.6 million. It is also planned that EBITDA of the Group will reach EUR 22.9 million in 2018.

It is planned that Grigeo AB in the year 2018 will reach a turnover of EUR 81.3 million. The Company will earn a profit before taxes of EUR 3.4 million. It is also planned that EBITDA of Grigeo AB will reach EUR 11.6 million in 2018.

These forecasts are not audited.

13.7. Financial indicators

13.7.1. Table. Group's financial and performance indicators.

Financial ratios	2013	2014	2015	2016	2017
EBITDA	12.608.884	15.857.428	18.311.228	16.067.717	22.894.230
EBITDA profitability	13.2%	15.9%	17.7%	15.7%	17.6%
Gross margin	15.8%	18.5%	19.8%	17.1%	18.6%
Operating margin	5.2%	7.9%	8.7%	5.0%	7.0%
Net margin	4.0%	6.9%	7.5%	4.3%	7.1%
ROE profitability	11.3%	17.6%	17.4%	9.1%	17.2%
ROA profitability	4.8%	7.6%	7.7%	3.9%	7.7%
Current ratio	0.79	0.71	0.81	0.56	0.69
Quick ratio	0.51	0.44	0.46	0.33	0.42
Cash to current liabilities	0.028	0.049	0.026	0.014	0.014
P/E	12.29	9.49	9.35	16.80	9.97
Earnings per share	0.061	0.103	0.118	0.067	0.139
Dividend per share	0.014	0.020	0.020	0.040	*
Dividend payout ratio	0.25	0.19	0.17	0.59	*
Debt to equity ratio	1.20	1.20	1.13	1.34	1.05
Debt to total assets ratio	0.52	0.52	0.51	0.56	0.51

* - indicator for the year 2017 will be calculated after the Ordinary General Shareholders' Meeting has approved dividends for the year 2017.

13.7.2. Table. Company's financial and performance indicators.

Financial ratios	2013	2014	2015	2016	2017
EBITDA	6,585,359	8,046,730	8,422,541	9,293,818	10,235,022
EBITDA profitability	15.3%	16.6%	15.6%	16.3%	14.4%
Gross margin	15.9%	17.4%	16.4%	16.5%	16.1%
Operating margin	5.2%	7.7%	5.4%	4.7%	3.9%
Net margin	4.5%	7.0%	5.3%	5.5%	5.1%
ROE profitability	6.2%	9.9%	7.8%	8.2%	9.1%
ROA profitability	3.8%	5.7%	4.2%	4.4%	5.0%
Current ratio	0.88	0.54	0.79	0.55	0.72
Quick ratio	0.61	0.38	0.44	0.38	0.51
Cash to current liabilities	0.008	0.017	0.001	0.000	0.000
Earnings per share	0.032	0.052	0.043	0.047	0.055
Dividend per share	0.014	0.020	0.020	0.040	*
Dividend payout ratio	0.49	0.39	0.46	0.85	*
Debt to equity ratio	0.54	0.77	0.81	0.79	0.77
Debt to total assets ratio	0.33	0.41	0.43	0.43	0.43

* - indicator for the year 2017 will be calculated after the Ordinary General Shareholders' Meeting has approved dividends for the year 2017.

The indicators are calculated in accordance with Nasdaq Vilnius AB recommended formulas:

EBITDA profitability = EBITDA / Revenue
Gross margin = Gross profit / Revenue
Operating margin = Profit from operations / Revenue
ROE profitability = Net profit / average equity
ROA profitability = Net profit / average assets
Current ratio = Current assets / current liabilities
Quick ratio = (Current assets – Inventories)/ current liabilities
Cash to current liabilities = cash / current liabilities
P/E = the market price of share / Total of attributable profit
Earnings per share = (Net profit - preferred stock dividends)/ weighted average number of ordinary shares in circulation
Debt to equity ratio = liabilities / Equity
Debt to total assets ratio = liabilities / assets

13.8. Patents, licenses, surveys

The Company and the Group have no patents and licenses.

13.9. Related party transactions

All transactions with related persons were carried out at market prices.
Grigeo Klaipėda AB – subsidiary of Grigeo AB.
Grigeo Baltwood UAB – subsidiary of Grigeo AB.
Mena Pak PAT – subsidiary of Grigeo AB.
Grigeo investicijų valdymas UAB – subsidiary of Grigeo AB.
Ginvildos Investicija UAB – main shareholder of Grigeo AB.
Didma UAB and Naras UAB – companies related to companies related to the members of Supervisory Council.
Grigeo Packaging UAB – subsidiary of the Group not subject to consolidation.
Naujieji Verkiai UAB – subsidiary of the Group not subject to consolidation.
Grigeo Recycling UAB – subsidiary of Grigeo AB.
Grigeo Recycling SIA – subsidiary of Grigeo AB.
Grigiškių energija UAB – subsidiary of the Group not subject to consolidation.

13.9.1. Table. The Group's transactions with related parties over the twelve months of 2017. Balances of amounts receivable/payable in relation thereto as at 31 December 2017.

Group 2017	Sale of goods and services	Purchase of goods and services	Amounts receivable *	Amounts payable
Entities with significant influence	-	38,908	-	3,267
Other related companies	10,479	-	1,753	-
TOTAL:	**10,479**	**38,908**	**1,753**	**3,267**

* Amounts receivable include prepayments for goods and services.

13.9.2. Table. The Company's transactions with related parties over the twelve months of 2017. Balances of amounts receivable/payable in relation thereto as at 31 December 2017.

Company 2017	Sale of goods and services	Purchase of goods and services	Amounts receivable *	Amounts payable
Entities with significant influence	-	21,082	-	3,267
Subsidiaries	4,222,173	11,227,541	265,189	1,579,779
Other related companies	9,600	-	1,753	-
TOTAL:	**4,231,773**	**11,248,623**	**266,942**	**1,583,046**

13.10. Court and arbitration proceedings

Over the twelve months of 2017 the Group and the Company were not involved in court or arbitration proceedings which would have a material impact on the financial position of Grigeo AB.

14. Social responsibility report

The activities of social responsibility of the Company and the Group are based on its values and define the Company's and Group's attitude towards their activity, inclusion of social, environmental protection and transparency principles in the internal processes of the Company and the Group, as well as in the relationship with interested parties.

Led by principles of sustainable activity, in its operation the company group is developing the culture and practice of a socially responsible business of the company group developed in a sustainable manner. The Company and the Group implement social responsibility through targeted and coherent activity in the following areas: relationship with staff and society, environmental protection, day-to-day activity.

14.1 Relationship with staff

Increasing involvement of staff. Every year we conduct the Employees' survey whereby their satisfaction and involvement are measured.

In 2017, the employee involvement (if to compare with that in 2016) went up by 10 percentage points and 8 percentage points in AB Grigeo and the Group, respectively.

We see the employee involvement as one of the core aspects of success of the organization, thus we analyse carefully the results received, present them to our employees, discuss opportunities of improvement with them, implement the foreseen measures.

Recognition of employees. As every year, in 2017 the Group companies organized the awards of the employees of the year. The nominations included the best manager, specialist, technical employee, production operator, production employee. The employees were awarded with recreational trips to the Lithuanian and foreign resorts.

Remuneration system. Seeking to maintain and attract talented people, we use a fair remuneration system which is competitive from the perspective of the market. We perform market surveys, follow the changing situation and, according to this, periodically review salaries. In 2017, the base salary, taking into account the external and internal competitiveness, was reviewed and raised two times.

In 2017, the performance evaluation system of specialists' rank, linking it up to additional remuneration, was renewed in the Company and the Group. Depending on the employee himself and the performance of the whole organization, the employees have an opportunity receive bonuses to their base salaries once in a quarter.

Periodical setting of goals and discussion of results with the staff allow the managers to ensure that the staff's activity is targeted. Ongoing feedback maintains employees' motivation and involvement.

Improvement of staff's competences. The Company and the Group have implemented a system of non-formal vocational training which involves all the necessary fields and targeted groups:

1) New employees. In 2017, the system for adaptation of new employees was updated in the Company and the Group. Non-formal vocational training programmes were developed for work with production machinery. Their implementation is managed by training coordinators, teachers of practice and theory. Thereby, safe and effective work from the first day at work is ensured for a new employee.

2) Current employees. Periodical certification of qualification is organized, which allows updating the knowledge and skills and maintaining the professional qualification of employees.

3) Managers. Seeking to ensure high management standards focused on the efficiency of the everyday operation and involvement of staff, in 2017 a continuous educational programme was initiated for managers of the company group.

Trainings of the company group were attended by the total of 751 employees, the total number of teaching hours is more than 16.5 thousand.

Occupational safety. Occupational safety is one of the main priorities of the organization. We give a special focus on prevention seeking to eliminate any risks of occupational safety or health from our environment. The employees continuously monitor the environment by themselves, record unsafe situations which are immediately eliminated by us. The most active team members are awarded for their initiative with prizes. During 2017, as much as 25% of the Company's employees identified such situations.

Special focus is given to education of employees: in 2017, trainings related to safety and health of more than 450 hours took place in the company group.

Every year, we organize the week of occupational safety during which various events take place in relation to employees' safety and health at work.

Healthy lifestyle. We encourage our employees to participate in sports activities: in 2017, traditional basketball and football tournaments took place, where 4 teams of employees of the company group competed; 17 members of the Company's team actively participated in the marathon organized by Danske Bank, and women joined the running which took place in spring. During the week of occupational safety and health, the internal table tennis championship took place.

All the employees of the Group are offered a partial compensation of membership in a gym. Also, we provide with free-of-charge influenza and tick-borne encephalitis vaccination, partially finance medical blood testing.

Social activity. The social activity is encouraged within the company group.

In spring of 2017, our staff helped in forest planting. In the area of 1.2 ha we planted 3,700 seedlings (900 firs and 2,800 oaks).

This tradition has continued for 7 years already during which we have planted the area of 9.4 ha in which 33,700 trees are growing today.

During the week of occupational safety we also organized a donorship campaign.

14.2 Relationship with community

Promoting sense of community. The roots of Grigiškės town are closely related to AB Grigeo: back in the day, the settlement started around the factory. A large part of current employees working for the group is residents of Grigiškės.

Seeking to maintain and strengthen our ties with community, in 2017, as every year, we gave the Christmas tree as a present for the town.

AB Grigeo is one of the largest sponsors of a newly built church in Grigiškės, the need for which occurred due to a growing congregation of the parish, which currently has 8,000 members.

The spring campaign was mentioned before, during which we seek to make our neighbourhood greener, thus we plant trees.

Educational activity and apprenticeship opportunities. AB Grigeo positively and free-of charge accepts to tours to objects managed by it. The trained guides – employees of the Company - are able to present the company and its activity in an interesting and modern manner both to students of secondary and higher schools and teachers. During these tours visitors have a unique opportunity to find out and see how everyday consumption goods are made of waste paper and cellulose.

The Company actively cooperates with educational institutions. In 2017, 7 students from Vilnius Gediminas Technical University, Vilnius College of Technology and Design took apprenticeship in the Company. 3 of them remained for permanent employment.

In March 2017, colleagues of the Company's Technical Department visited Vilnius Gediminas Technical University, where they made a presentation on maintenance of innovative machinery in the modern business. We also presented the Company during the career days of Vilnius College of Technology and Design.

14.3 Environmental protection

The priority focus of the group is paid to environmental protection. Our goal is to use the natural resources to the optimal extent. All acquired timber is used for production of valuable goods needed and used by various industries or segments of consumers. Whereas, biofuel made of waste goes to the boiler houses of the company.

Paper for production of sanitary and household goods as well as corrugated paperboard are manufactured by reprocessing secondary materials, i.e. waste paper, thereby reducing the amount of waste in Lithuania, in the neighbouring countries and contributing to saving of forests.

Actively contributing to the international obligations of Lithuania to increase the use of renewable energy resources in the production of energy, also, seeking to optimize the production costs, companies of AB Grigeo Group have implemented modern biofuel boiler houses in their production cycle, which provide own companies in Lithuania with almost all needed steam/heat energy, and, at the same time, use industrial waste allowed for incineration. All biofuel boilers managed by the company group are characterized by exceptionally high economic and ecological indicators.

Since 2012, the Company and the Group have implemented the Environmental Protection Management System ISO 14001, ensuring continuous environmental efficiency in our Company.

Ecology of production. We are the first company in Lithuania which was granted the ecology mark EU 'flower', aimed at implementation of the EU policy of sustainable consumption and production, which seeks to reduce negative impact of consumption and production on the environment, health, climate and natural resources.

Having implemented all the requirements of standards FSC® FSC-STD-40-004 V2-1; FSC-STD-50-001 V1-2, AB Grigeo was granted a FSC® Chain-of-Custody certificate.

Pollution management. In cooperation with the Lithuanian Environmental Protection Investment Fund (LAAIF), since 2009 we have invested more than 640 thousand EUR in projects related to reduction of air and water pollution.

In 2017, we have implemented (using the LAAIF funding) the air cleaning system for paper production with the value of 219 thousand EUR. With the help of the system, every year the emission of particulate pollutants will be less by 500 kg.

In November 2017, the company received the award of "Crystal Chimney" in the nomination of the project promoter which implemented a largest number of projects.

14.4 Business ethics and transparency

In every day work employees of the company group are led by the activity standards established in the code of ethics of the group, which are the basis of the whole business. In accordance with these standards we also create and maintain our relationship with clients, partners, state authorities. AB Grigeo code of ethics can be found here: www.grigeo.lt/lt/verslo-tvarumas/grigeo-verslo-etikos-kodeksas.

The Company publishes all the essential information in Nasdaq Baltic system. In 2017, the Company was ranked among the three award winning companies in the awards of Nasdaq Baltic, the nomination "Best company of interactive relationship with investors according to the market professionals".

The Company has joined the initiative of marking transparent entrepreneurship "White Wave". Thereby, we emphasize our exclusively transparent and fair approach to accounting of working time and remuneration, intolerance to wages paid in illegal forms.

INFORMATION ON COMPLIANCE WITH GOVERNANCE CODE

The public company Grigeo AB (hereinafter – "the Company"), following Article 22(3) of the Law on Securities of the Republic of Lithuania and item 24.5 of the Trading Rules of the stock exchange NASDAQ Vilnius AB, discloses its compliance with the Governance Code, approved for the companies listed on the regulated market, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

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

2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applica-ble	Both the council of observers (supervisory board) and the management board are formed in the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	The collegial supervisory body, as elected by the general meeting of shareholders, is formed and operates in the procedure laid down in guidelines III and IV; guidelines III and IV also apply to the management board, insofar this does not contradict the essence and purpose of the mentioned body.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	The management board of Company consists of 5 members. The council of observers (supervisory board) also consists of 5 members. This is set forth in the Articles of Association of the Company. The Articles of Association shall be approved by the supreme managing body of the Company, i.e., the general meeting of shareholders.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	In accordance with the Articles of Association of the Company, the council of observers shall be elected by the general meeting of shareholders for the maximum period of 4 years. This is the maximum period permitted by the legislation of the Republic of Lithuania. The general meeting of shareholders is entitled to revoke all or individual members of the council of observers before expiration of their tenure.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The chairperson of the council of observers, as formed in the Company, has not been the head of the Company.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting		

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

The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]

3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The collegial body elected by the general meeting of shareholders is elected in compliance with the procedure prescribed by the legislation of the Republic of Lithuania. Concurrently, the interests of small shareholders, disinterested and unbiased supervision of the managing bodies are ensured.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual management report.	Yes	The Company discloses information about the nominees to the collegial bodies to shareholders immediately after it receives proposals for candidates to the collegial body. Information about the members of the council of observers and the management board is disclosed by the Company in its periodical reports. Accordingly, there is enough time for the shareholders to decide on which nominee they will vote.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual management report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	The Company complies with the provisions laid down in this recommendation. Information about the members to the council of observers is disclosed by the Company in its periodical reports.
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	The members to the collegial body of the Company, as formed by the general meeting of shareholders, are elected taking into consideration the structure and types of activities of the Company; the members have versatile knowledge, opinions and experience necessary for the proper performance of their tasks.

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

3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	New members elected to the collegial bodies of the Company are made familiar with the Company, its organization, activity specifics, etc.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	Independency of the members of the council of observers has not been evaluated in the Company so far; the Company has not discussed the contents of the concept of "sufficiency" of independent members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);	Yes	According to the criteria laid down in paragraph 3.7, there is an independent member in the council of observers of the Company.

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

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

He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; He/she has not been in the position of a member of the collegial body for over than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	No	The Company has not defined the concept of independency.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The Company has not applied so far the practice of evaluation and announcement of independency of the members of the council of observers.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body	No	The Company has not applied so far the practice of evaluation and announcement of independency of the members of the council of observers.

to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.		
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds[6]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Members of the collegial bodies were remunerated for their work from the funds of the Company by tantiemes.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting		
The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	The council of observers makes recommendations to the managing bodies of the Company and monitors their activities.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	To the best knowledge of the Company, all members of the council of observers act in a good will in respect of the Company, comply with the interests of the Company (not those of third parties) and take efforts to maintain independency in decision making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body	Yes	Members of the collegial body properly perform the functions delegated to them: actively participate at the sitting of the collegial body and devote sufficient time for the performance of their duties as the members of the collegial body.

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

[7]See Footnote 3.

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

should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.		
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The collegial body treat all shareholders in a fair and unbiased manner. There have been no conflicts of interests so far.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	The Company complies with the provisions laid down in this recommendation.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies.[10] Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	The collegial body is independent in making decision important for the activities and strategy of the Company. Also, there are no restrictions for the collegial body to receive information of the Company's employees.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly	Yes	An Audit committee is formed in the Company and is responsible for issues related to the company's audit control and evaluation and is not responsible for issues related to the

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

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

relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[11]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		company's directors and the appointment of directors' remuneration determination. Conflicts of interests in the fields relating to audit control and evaluation of the Company have been avoided so far.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgment and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	An Audit committee is formed in the Company.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on	Yes	An Audit committee of the Company is composed of 3 members of the Company's Supervisory Council.

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

particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	The authority of the Audit committee is determined by Supervisory Council by approving the Audit committee's internal rules.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	According to the Audit Committee's internal rules the Audit Committee has the right to invite to its meetings the Chairman of the Supervisory Board and certain employees of the Company, the external auditor.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; Properly consider issues related to succession planning; Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and	No	No nomination committee has been formed in the Company so far.

shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5)Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6)Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.	No	No remuneration committee has been formed in the Company so far.

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; Examine the related information that is given in the company's annual management report and documents intended for the use during the shareholders meeting; Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1)Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2)At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5)Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance	Yes	The Company has formed an audit committee whose main functions are in line with these recommendations.

relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;

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

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.

4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.

4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by

way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	Such practice has not been applied in the Company.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company fully complies with these recommendations.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.[12]	Yes	Sittings of the collegial bodies of the Company are held at such intervals as are necessary to ensure uninterrupted tackling of essential issues relating to the management and supervisory of activity of the Company.

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

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Members of the collegial bodies are notified on the sitting in advance by sending them the agenda and all needed materials of the meeting, so that they'd have enough time to properly prepare for consideration of the issues to be addressed at the meeting and share in useful discussions leading to adoption of proper resolutions.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	In order to coordinate operations of the collegial bodies of the Company and to ensure efficient decision-making process, chairpersons of the collegial supervisory and managing bodies of the Company agree upon the dates and agendas of future sittings, closely cooperate in tackling other issues relating to the management of the Company.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The authorized capital of the Company is comprised of 65.700.000 ordinary shares. The par value of one share is EUR 0.29. All shareholders of the Company enjoy equal rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company fully complies with this recommendation.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	In order to ensure continuous and effective activities of the company and to avoid unnecessarily frequent consideration of transactions at the meeting of shareholders, transactions that are important to the company and its shareholders, such as transfer, investment, mortgage or other encumbrance are approved by the decision of the board without the approval of the meeting shareholders.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice	Yes	Procedures of convocation and holding the general meetings of shareholders of the Company create the shareholders equal opportunities to attend the meetings and do not

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

the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.		violate their rights and interests. Notices of convocation of the general meeting are published following the procedure established by the Republic of Lithuania Law on Securities in the Central database of regulated information administrated by Nasdaq Vilnius AB, on the Company's website. The general meetings of shareholders of the Company are convened at the address of the Company's registered and operational address at Vilniaus str. 10, Grigiškės, Vilnius, the place, date and time do not preclude the active shareholders' participation at the meeting.
6.5. If possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The Company fully complies with this recommendation.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company fully complies with this recommendation.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Company does not comply with the provisions of this recommendation, because there have been no such request on the part of the shareholders.

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company fully complies with these recommendations.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	The Company fully complies with these recommendations.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The Company fully complies with these recommendations.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The Company fully complies with these recommendations.

Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	No	Such practice has not been applied in the Company so far.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.

implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year. 8.3. Remuneration statement should leastwise include the following information: Explanation of the relative importance of the variable and non-variable components of directors' remuneration; Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; An explanation how the choice of performance criteria contributes to the long-term interests of the company; An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; Sufficient information on deferment periods with regard to variable components of remuneration; Sufficient information on the linkage between the remuneration and performance; The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; Sufficient information on the policy regarding termination payments; Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; A description of the main characteristics of supplementary pension or early retirement schemes for directors; Remuneration statement should not include commercially sensitive information.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.

8.5.1. The following remuneration and/or emoluments-related information should be disclosed: The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; The remuneration and advantages received from any undertaking belonging to the same group; The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.

component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.		
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.13. Shares should not vest for at least three years after their award.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.

meetings where appropriate and make considered use of their votes regarding directors' remuneration.		
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: Grant of share-based schemes, including share options, to directors; Determination of maximum number of shares and main conditions of share granting; The term within which options can be exercised; The conditions for any subsequent change in the exercise of the options, if permissible by law; All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.

8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	No	The Company does not publish its report on remuneration policy; therefore, such practice has not been applied in the Company so far.
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company complies with all statutory requirements aimed at ensuring the rights of interest holders.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	The Company complies with all statutory requirements aimed at ensuring the rights of interest holders.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company complies with all statutory requirements aimed at ensuring the rights of interest holders.

Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: The financial and operating results of the company; Company objectives; Persons holding by the right of ownership or in control of a block of shares in the company; Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; Material foreseeable risk factors; Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; Material issues regarding employees and other stakeholders; Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The Company complies with this recommendation.
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	The Company complies with this recommendation.
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Partly	The Company regularly discloses information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company as well as potential conflicts of interest that may have an effect on their decisions.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	The Company complies with this recommendation.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the NASDAQ Vilnius AB Stock Exchange, so that all the company's shareholders and investors should have equal access	Yes	The Company publishes information through the Central database of regulated information administrated by NASDAQ Vilnius AB in Lithuanian and English simultaneously, of possible. The Stock Exchange places the received information on its home page and trade system, thus ensuring simultaneous placement of information to all readers. In addition, the Company, if possible, publishes its

to the information and make informed investing decisions.		information prior to or after trade sessions of the stock exchange NASDAQ OMX Vilnius and provides information for all markets where securities of the Company are traded simultaneously. The Company does not publish in commentaries, interviews or otherwise any information likely to affect the price of its emitted securities until such information is announced through the Central database of regulated information administrated by NASDAQ OMX Vilnius. The mentioned information is also placed on the website of the Company: www.grigeo.lt.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Essential events, press releases, activity reports and other information important for the shareholders are published on the website of the Company in Lithuanian and English.
10.7. It is recommended that the company's annual management report and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company fully complies with this recommendation.

Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements	Yes	The Company complies with this recommendation, except for audited of interim financial statement.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	An audit company is proposed to the general meeting of shareholders by the Board of the Company, taking into account the recommendations of the Company's Audit Committee.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The Company complies with this recommendation. In 2017 Audit company has not rendered other services for the company.