



BALTIC INSTITUTE
OF CORPORATE
GOVERNANCE



ANNUAL REPORT

2010

PROMISE, PROGRESS, PERSPECTIVE:
PROMOTING FIRST-CLASS CORPORATE GOVERNANCE IN THE BALTICS



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BICG was founded in 2009, with the aim of bridging the gap between the level of Governance in the Baltics and the Nordics and EU.

Message from the Board & Council

Dear Stakeholders

The foundation for corporate governance reform has taken significant steps forward in the Baltic States within the past year, especially among state-owned enterprises.

We are proud to note that much of what has occurred is the direct result of our consistent efforts to inform, educate, organize and align corporate governance interests in all sectors.

This 2010 annual report describes the extent of our accomplishments over the past 12 months.

A key reason for this report is our commitment to establishing a high standard for institutional transparency and disclosure. For us, the report helps to maintain a continuous dialogue with our stakeholders on what we are doing and how we can do it better. All enterprises, public or private, could further stakeholder involvement by publishing detailed annual reports.

This report provides facts and interpretations; it also reflects our mission, values, goals, and principal purpose – to set a new agenda for bridging the gap between governance in the Baltics and governance in the Nordics and European Union. Some of our priority objectives in this regard:

- Build a sustainable association driven by our members' concerns
- Create new standards of responsible governance in both public and private enterprises
- Secure our brand as the leading advocate of corporate governance in the Baltics
- Demonstrate how proper board management enhances bottom-line value in both private companies and state-owned enterprises

We pursue these objectives regionally. We also seek to network internationally for support from influential corporate governance authorities. In all we do, we will measure our success by delivering on our promises and by building a secure foundation for the future of our countries.

We are very grateful to our Corporate and Individual Members; we could not exist without their extraordinary trust and support. We thank, as well, our Board, Corporate Governance Council, and President for their dedication to the cause and the Institute.

We look forward eagerly to everyone's continued participation in what is not only a noble cause but a highly pragmatic initiative for ensuring efficient, effective and ethical business and social environment for all.

February 28, 2011



Arminta Saladžienė

Chairman, BICG Board



Ian Plenderleith

Chairman, BICG Corporate
Governance Council

Message from the President

Dear Members

BICG was established in August of 2009 and 2010 was our first full year of operation. Looking back I am humbled by how much we have achieved, including a three-year activity plan that has outlined our near-term goals.

In an amazingly short time, and despite the economic hard times in the Baltic States, we assumed a prominent position in business and government circles. We established ourselves as a reputable brand in corporate governance with a record of tangible performance to match our aspirations. Most important, we took major steps toward our overall aim of raising the level of governance in the Baltic States.

Without the extraordinary contributions of our Board and Corporate Governance Council lead by two dedicated Chairmen, our job would have been all but impossible.

Nor could we have accomplished what we did without the equally impressive participation of our Corporate and Individual Members. Our achievements flow from their insightful ideas and edifying involvement.

We are also thankful for those individuals and companies in Lithuania and Latvia who volunteered their precious time and institutional knowledge to create the first public state asset reports in Latvian and Lithuanian history. Their work will be felt for years to come.

In 2010, we also had wonderful support from a wide spectrum of Governmental and diplomatic offices. They opened doors for us inside and outside their respective countries, hosted meetings, took part in our discussions, attended our programs, and became our close supporters.

And we cannot forget the many high-level international speakers who participated in our programs, often at their own expense. They, too, opened doors, but most important for the scores of “students” who enrolled in our executive education program, they taught and lectured on the theory and practice of sound corporate governance. They also spoke at our public forums.

Lastly, I want to convey my warmest personal thanks to all who assisted me, both inside and outside the Institute, to manage our goals, priorities and programs over the past year. They have my undying admiration and respect. They are a special category of people whose enlightened views are having a powerful impact on the responsible conduct of business and government.

For making 2010 a model year of concerted action on behalf of better corporate governance in the Baltics, I salute you one and all.

February 28, 2011



Kristian Kaas Mortensen

President

From Promise to Progress: 2010 Puts BICG on the Map

*We were **well prepared** as we entered 2010 and despite the challenging economic environment we were able to formally establish the Institute and deliver significant growth and strong measurable results.*

Commercial companies measure year-end results largely in terms of profits and dividends. As a member-driven association, we use a different yardstick. Our value proposition comes from our activities and the results achieved. We, too, strive to be “profitable,” but the bottom line has more to do with programmatic and philosophical success.

Our 2010 activities underscore the depth and variety of our accomplishments along with the value we bring to private companies and state-owned enterprises of all sizes and levels of success:

- Making international best practice available to our members got much easier when BICG in 2010 became a regional affiliate of the Global Corporate Governance Forum, The Global Corporate Governance Forum is an International Finance Corporation multi-donor trust fund facility located within IFC Advisory services in the World Bank.
- One of the first results of our affiliation with the Forum was the publishing of a book “Corporate Governance in Swenglish” written by Raoul Hasselgren and based on materials from the Global Corporate Governance Forum. This book provides a practical guidance to key corporate governance topics and enables BICG to further professionalize our executive education program.

- Strengthening the supply and skills of non-executive directors was again the aim when BICG held its Executive Education in May and November with a total of more than 70 graduates. One of the many unique guest speakers to this program in 2010 was Dr. Yılmaz Argüden, Chairman of ARGE Consulting & Chairman of Rothschild investment bank in Turkey – a truly experienced board professional with the ability to transfer his knowledge to our graduates.
- Independent board members are more important than ever for bringing in fresh, unbiased guidance and control to Baltic companies. Finding the right board member can be challenging. The right person will have a strong and relevant track record. They must also fit well with a company's board and culture ... but not too well, because their primary role is to challenge the management. BICG seeks to facilitate the further use of non-executive board members in Baltic companies, and at the same time to give shareholders an independent way of identifying the right candidates based on skills rather than friendship. For this cause, a Directors' database containing graduates from BICG executive program was established.
- BICG creates additional value for its members via member only events. The first such event took place in September and focused on the role of the Chairman, with Henning Dyremose as a guest speaker. Mr. Dyremose is one of the most experienced Chairmen in Denmark having served on the board of Carlsberg, being Chairman of TDC and other large companies. The events program finished with a social arrangement where almost 70 inspired participants enjoyed a concert with Sting and the Royal Philharmonic Orchestra.

BICG activities consistently support the overall aim of improving the level of governance in the **three Baltic States.**

- BICG also arranges events open to the public. One such event that was arranged with no participation fee featured Daniela Weber-Rey, a Member of the Partnership Council of Clifford Chance and Member of the Conseil d'Administration at BNP Paribas Bank. A leading advisor in corporate governance and boardroom issues, she is also a member of the German government's Corporate Governance commission.
- Governance becomes highly valued when a company has around 10 million customers, such as Nordea banking group. In September BICG had the pleasure of hosting Hans Dalborg, Chairman of Nordea during a one day visit to Riga. Mr. Dalborg addressed the Baltic Economic Forum and later spoke on the value of good governance to a select group of business leaders at a lunch hosted by the Swedish Embassy in Riga.
- Communicating with our members and stakeholders not just in the Baltic countries but also internationally is of high importance to BICG. We therefore created an interactive forum to allow everyone to keep in touch with the latest governance developments and BICG events. This was done on the LinkedIn platform. BICG has already reached more than 300 high level members, making this group a top 30 corporate governance group globally in number of members.
- When governments create positive reform in state owned enterprises it is highly valuable for society. BICG held a number of events to build momentum in this area:
 - A Baltic Summit hosted by BICG the Lithuanian Ministry of Economy and the Lithuanian Parliament (Seimas) on March 19 in the Lithuanian Parliament to discuss governance of State-owned Enterprises with key international experts.
- BICG was together with the Lithuanian and Latvian governments invited to speak at a closed event in Brussels on October 12 on the subject of "Privatize or restructure? Challenges for Corporate Governance of State-owned Enterprises".
- BICG was over the spring and summer period highly involved in preparation of the first annual review of commercial state assets for the Lithuanian and Latvian governments.
- BICG held two key events during the high profile Baltic Development Forum Summit in Vilnius on June 2, which included the launch of the Baltic Guidance for Government owned Enterprises.
- BICG arranged a panel discussion on Corporate Governance as a driver of Baltic competitiveness during the Baltic Economic Forum in Riga. Some of the speakers were Hans Christiansen, Senior Economist, Corporate Affairs Division OECD, Rimantas Žylius, Vice Minister of Economy, Lithuania, Juris Pūce, State Secretary of the Ministry of Economics, Latvia, Inguna Sudraba, Auditor General, Latvia.

Business and Government Pitch In

In 2010, we were privileged to have the active involvement and endorsement of a committed international network of governance experts, board professionals, and governments without whose support our results would be far less ambitious and meaningful.



Dr. Yilmaz Argüden,

Chairman of ARGE Consulting & Chairman of Rothschild investment bank in Turkey.

Dr. Argüden is a leading strategist, advisor, and board member of major public and private institutions, and NGO's. He is the Chairman of ARGE Consulting, a leading management consulting firm based in Istanbul. He is also the Chairman of Rothschild investment bank in Turkey.



Sarah Blomfield,

Director in the Investment Banking Division, Rothschild.

Sarah is a graduate of Cambridge University in the UK and qualified as a solicitor with Slaughter and May in London in 1998. Sarah joined Rothschild in 2001 and is a Director in the Investment Banking Division, Head of the Technical Team and a member of the Risk Committee. Sarah's team advises on a range of transactions from pitch to execution, specializing in on-market M&A including UK Takeover Code, Listing and Disclosure Rules and financial regulation. Sarah is also responsible for global best practice at Rothschild.



Ambassador Simon Butt,

British Ambassador to Lithuania.



Ambassador Ulrika Cronenberg-Mossberg,

Swedish Ambassador to Lithuania.



Hans Dalborg,

Chairman of Nordea and the Swedish Corporate Governance Board.

Mr. Dalborg is the Chairman of Nordea, the Swedish Corporate Governance Board and Uppsala University. He is also a board member of Axel Johnson AB, the Stockholm Institute of Transition Economics and East European Economies (SITE) and the Stockholm Institute for Financial Research (SIFR).



Ambassador Anne E. Derse,

US Ambassador to Lithuania.



Prime Minister of Latvia Valdis Dombrovskis.



Henning Dyremose,

Former CEO of TDC A/S and a very experienced Danish board member.

Henning Dyremose has broad national and international management experience as the former CEO of TDC A/S and from other management post before that at Novo and DLH. He also has extensive experience of trade policy and economic affairs from having been a member of the Danish Parliament and served as both Labour Minister (1986-89) and Finance Minister (1989 -93).



W. Richard Frederick,

Independent advisor on issues of corporate governance and transparency mainly for the World Bank, the IFC, UNCTAD and the OECD.

Richard Frederick advises on Corporate Governance. Recently he has analyzed state-owned enterprise governance and worked on corporate governance codes in developing and emerging market economies. Mr. Frederick was involved in the privatization of state-owned enterprises for the Treuhandanstalt in the former East Germany and, while at KPMG, advised boards on executive remuneration schemes.



Raoul Hasselgren,

Raoul Hasselgren is a very experienced Senior Executive, who has been a professional board member in 70 national and international companies, both private and public.

During his extensive management career he has worked for companies such as Johnson & Johnson, Unilever and Nordiska Kompaniet NK.



Chris Hodge,

Head of the Corporate Governance Unit at the UK Financial Reporting Council.

Chris Hodge is Head of the Corporate Governance Unit at the UK Financial Reporting Council, the independent regulator responsible for corporate reporting and governance. He is responsible for updating and monitoring the effectiveness of the Combined Code on Corporate Governance and related guidance on issues such as internal control and audit committees. Prior to joining the FRC in 2004 Chris held various positions in different Government Ministries.



Prime Minister of Lithuania Andrius Kubilius.



Flemming Lindeløv,

Chairman of "Institut for Selskabsledelse" & and a very experienced international board professional.

Flemming Lindeløv (PhD) holds an MSc in engineering from the Technical University of Denmark. He has been the senior executive of a number of Denmark's largest companies, including FDB, Tulip Meatpackers, Carlsberg and Royal Scandinavia. He gained substantial management experience over a period of 30 years from these positions and has been in charge of a number of successful acquisitions, mergers and rationalization measures.



Ambassador Jan Palmstierna,

Swedish Ambassador to Estonia.



Minister of Economy of Estonia Juhan Parts.



Pekka Timonen,

Director General, Ownership Steering Department. He is currently working in the in Prime Minister's Office, Ownership Steering Department. He formerly worked for the Ministry of Trade and Industry /State Shareholdings Unit with responsibility for the corporate governance of state-owned companies in Finland.



Dr. Elisabeth Wagner,

Partner, Law firm of Clifford Chance in Germany.

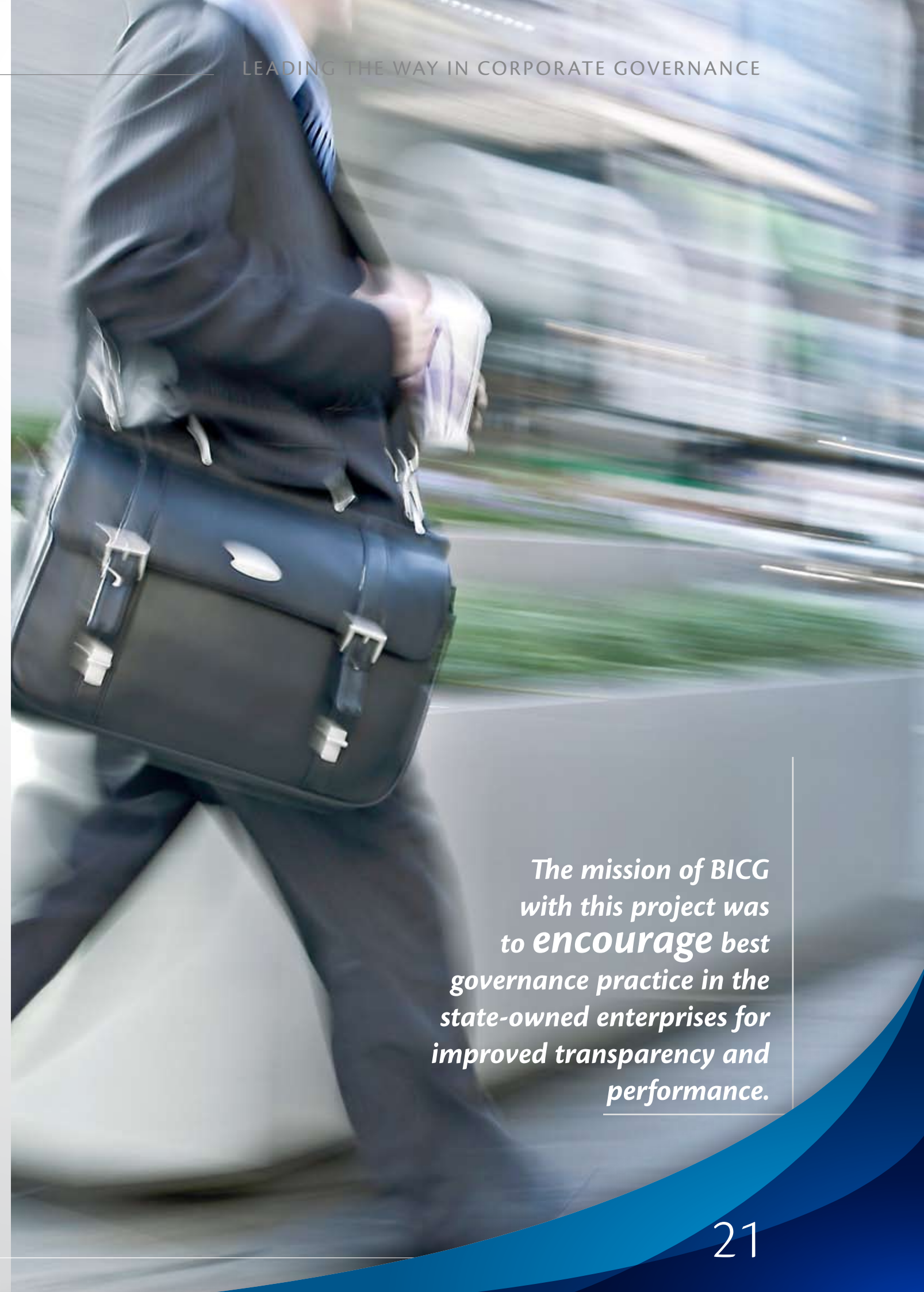
Dr. WAGNER from the Law firm of Clifford Chance in Germany advises mostly investment banks and financial investors in the areas of corporate finance and corporate structures. She specializes in takeovers, mergers and acquisitions and public transactions.



Daniela Weber-Rey,

Partner in the Law firm Clifford Chance and member of the Conseil d'Administration at BNP Paribas.

Daniela Weber-Rey is a Partner in the Law firm Clifford Chance and advises mainly German and international clients. She is a member of the Conseil d'Administration at BNP Paribas, Paris, since May 2008. Member of the German Corporate Governance Commission since July 2008 and a member of the management board of the German Private Equity and Venture Capital Association 2001 – 2005.



*The mission of BICG with this project was to **encourage** best governance practice in the state-owned enterprises for improved transparency and performance.*

Education Takes Precedence

For Baltic business and governments, a key shareholder issue is increasing the use of non-executive directors (NEDs) in boards. Because of their “outsider” independence, NEDs can play a valuable role in helping direct companies.

Typically, non-executive directors are members of the boards but not part of a company’s executive management team. At BICG, we see their role as crucial in four critical areas of management:

- **Strategy:** To constructively challenge and contribute to the development of strategy.
- **Performance:** To scrutinize management’s performance in meeting agreed-upon goals and objectives, and monitor succession planning.
- **Risk:** To assure that financial information is accurate and that financial controls and risk management systems are robust and defensible.
- **People:** To determine remuneration of executive directors and play a key role in recommending the appointment and, where necessary, removal of top executives.

In 2010 BICG held two programs directed at educating regional top managers for their future role as NEDs. Entitled “Executive Education for Professional Board Members,” they included six days of education, two days in each of three weeks.

More than 110 people have graduated since we instituted this program in 2009. Participants in 2010 came from all three Baltic States; lecturers from Denmark, Sweden, United Kingdom, Turkey and Germany. 2011 programs are scheduled for May and November.

Our NED education features a localized blend of theory and practice.

The theory derives from the proven experience of the Stockholm Chamber of Commerce, which has graduated more than 888 non-executive directors from its own NED education offerings, and from the field-tested guidelines found in the GCGF’s “Toolkit 3: The Corporate Governance Board Leadership Training Resources Kit.”

The practice derives from the experience and presentations of our International program lecturers and instructors. In 2010, they included:

- Sarah Blomfield, Director in the Investment Banking Division, Rothschild
- Gediminas Dominas, Glimstedt law firm
- Raoul Hasselgren, Stockholm Chamber of Commerce
- Flemming Lindeløv, Chairman of “Institut for Selskabsledelse”.
- Arminta Saladžienė, CEO, NasdaqOMX, Vilnius
- Dr. Elisabeth Wagner, Partner, Law Firm of Clifford Chance in Germany.
- Aivaras Abromavičius, Partner at East Capital Asset Management
- Bernt Sandell, Practice Leader, Marsh Insurance
- Linas Dičpetris, Partner, Ernst & Young

GOE Governance Gets the Spotlight

Governance of state-owned enterprises is a major challenge in many economies, including the three Baltic States. As the Baltic Governments seek higher economic efficiency and transparency in the public sector, governance of the state and municipality-owned enterprises is of primary importance.

Governments often choose to retain ownership in strategic enterprises, or enterprises that provide key infrastructure or social services. While the overall weight of Government-owned Enterprises (GOEs) in the global economy has declined in recent years, GOEs continue to play an important role in the Baltics.

GOEs face operational and governance challenges that differ somewhat from private-sector enterprises. The fundamental difference is that they are required to pursue both social and business objectives. On the one hand, they are supposed to help achieve important social and policy goals. On the other hand, they need to obey the laws of economics in order to survive and prosper in a market economy.

Furthermore, GOEs often have complex decision-making and accountability structures that can involve government, boards, management, parliament, private shareholders, and the public. Decision making is, at times, based as much on political needs as business logic. These challenges are, in turn, made acute by external factors, including globalization, technological change, and market deregulation.

In January 2010 BICG decided that it could make a significant contribution to the Baltic economies by developing guidance on the governance of government-owned enterprises. The mission of BICG with this project was to encourage better corporate governance practices in the government owned enterprises, and promote best practice ownership practices by the state.



***Governments often
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We immediately were met by open doors and interested stakeholders. This was clearly evident by the joint Baltic Summit in the Lithuanian Parliament (Seimas) on March 19, 2010 hosted by BICG together with the Lithuanian Ministry of Economy and Parliament (Seimas). This event was arranged to give all stakeholders an opportunity to discuss the importance of better state ownership practices and had a large number of key participants from the Baltic Governments and their enterprises, the Diplomatic Corps as well as other stakeholders.

Months of intensive debates and work resulted in the publication of the Baltic Guidance for the Governance of Government-owned Enterprises at the Baltic Development Forum Summit in Vilnius on June 2.

The Guidance was developed according to best international practices and included a study of the legal framework, countless phone interviews, one-on-one meetings, and most importantly a hearing process whereby many stakeholders took the opportunity to comment on the draft guidance, thereby contributing to its positive outcome and adoption.

One noteworthy aspect of this guidance is its regional approach. Few international pronouncements on the corporate governance of GOEs exist; fewer still seek to embrace a regional approach to corporate governance.

Another important aspect is the relationship between the Guidance and the OECD Guidelines on the Governance of State-owned Enterprises, which is the recognized international best practice standard. The Guidance neither repeats nor supplants the OECD guidelines; rather, it provides a road map to the three Baltic governments on how to achieve international best practice.

The guidance has specific recommendations to the Government, the Supervisory boards, the management team and in general to reporting and audit. One of these recommendations addresses information on the government's GOE portfolio:

"The state needs to have complete and accurate information on GOEs in order for it to develop sound policy and exercise responsible oversight. Information must be available both in the aggregate and for all individual GOEs. The government must also have the capacity to analyze information especially budgetary impact and risks. The government must track minority participations and legacy/residual shareholdings from privatization. Information should be shared between ministries and/or relevant agencies. Care must be given to ensure that confidential information on the GOE and information with potential insider value be properly safeguarded."

It was a very positive development to see the publication of the first ever Annual Review of Lithuanian state-owned commercial assets released by Prime Minister Andrius Kubilius on July 14, and the publication of the first ever Annual Review, Latvian State-owned Assets released two months later by Prime Minister Valdis Dombrovskis.

It is apparent that the portfolio and estimate value of these important state assets has been brought into the light and that the urgent need for and value of better ownership by the governments has been understood. These reforms take time, but it is clear that positive momentum is there.

Weighing Next Steps

In 2011 and 2012, the working agenda for the Institute and our members will be more bifurcated than in our first two years of operation. Looking ahead, we believe that Baltic companies and government enterprises must concentrate on growth but they must also focus on integrating themselves, after the “cost cutting” years, as partners in the expanding Nordic and European economies.

We also believe that globalization will increase its relevance for most of our members. They will experience expanded market opportunities, especially in the Nordic Region and nearby EU countries.

Most important in our view, Baltic-owned companies who want to seize these opportunities can gain significant competitive advantage by adopting governance policies and structures that are more in line with those already in place in the region.

One of the challenges for enterprises within the Baltics is that they suffer the consequences of others not living up to best practices. This means that even when companies do not see a governance problem in their own company they often refer to the breach of agreements, use of inside information, hiding liabilities, stealing assets, unclear level of decision making etc. in other companies.

At its simplest, we can say that good governance will reduce the risk of corporate crises and scandals. Corporate governance addresses issues that result from the separation of ownership (shareholders) from control (management) by establishing transparent, responsible processes and systems among share owners, directors and managers. Many researchers have identified the existence of a “corporate governance premium”, an additional price that investors will pay for well-governed companies. In addition, some researchers have identified superior share performance by well-governed companies.

To assist in surmounting these challenges, we will focus our efforts more concretely on the governance of privately owned and unlisted Baltic companies. Unlisted companies account for more than 70% of Baltic GDP. As such, they will be the principal source of near and long-term employment as well as the catalyst for a large proportion of Baltic economic growth.

In addition, we will broaden the knowledge of best practice governance by organizing must-attend events and promote our Directors’ Database as the must-use source for recruiting non-executive directors for Baltic boards.

In sum, we will have to do more to meet the continued growth and critical needs of our Corporate and Individual Members and stakeholders at large by implementing more activities aimed at raising the level of good governance, transparency and accountability in Baltic enterprises.

Towards an Integrated Nordic-Baltic Capital Market¹

The corporate governance of the Nordic countries resembles that of most of the industrialized world and meets with the highest international standards. The aim of this article, written for the Baltic Institute of Corporate Governance Annual Report for 2010, is to highlight some distinctive features of the Nordic corporate governance model and to discuss its relevance as a common ground for a future, integrated Nordic-Baltic capital market.

The Nordic countries are advanced market economies with well-developed and international capital markets. Foreign ownership of listed companies has increased significantly over the last few decades and is now over a third in the region as a whole. The total market capitalization of the Nordic regulated stock market equals about half of the London Stock Exchange Main Market.

During the last decade, the Nordic capital markets have become increasingly integrated. A number of cross-border mergers have taken place, creating large pan-Nordic companies, some with their shares listed on more than one of the main Nordic stock exchanges. These exchanges have undergone a rapid consolidation in the last few years and they are today, including the stock exchanges of the Baltic countries but except the Oslo Stock Exchange, wholly or majority owned by Nasdaq OMX. This, in turn, lays the groundwork for a truly integrated Nordic capital market, to an increasing degree incorporating also the Baltic area, which will further enhance the competitiveness of this region on the international capital market.

¹ This article is partly based on the booklet Corporate Governance in the Nordic Countries, published in April 2009 by the corporate governance committees of Denmark, Finland, Iceland, Norway and Sweden, see e.g. www.corporategovernanceboard.se.

The challenge for Baltic countries now is to develop corporate governance regimes that meet the highest international standards.

Another important prerequisite for obtaining an integrated capital market is that the corporate governance regimes of the countries involved are well developed and reasonably consistent with one another. The corporate governance of the Nordic countries is primarily based on the companies' act of the respective countries' as well as legislation regarding accounting, financial reporting, securities trading, etc. Although these Companies Acts today differ in significant details, as a heritage from far-reaching harmonization efforts in the mid-20th century they still share a set of fundamental views and values about the governance of companies, which forms the basis for the uniquely Nordic model of corporate governance.

Key aspects of this model, as compared to the British-American one-tier, as well as the Central European two-tier, models include *inter alia*:

- **Strong ownership control** e.g. through extensive shareholders' rights, strong General Meeting powers, and a tradition of owners taking active part in the governance of companies, including taking seats in nomination committees and boards.
- **Far-reaching shareholder minority protection** to counter-balance strong ownership powers, e.g. through qualified majority requirements for a number of General Meeting resolutions as well as minority powers to force certain GM decisions.
- **Strict division of roles and responsibilities** throughout the governance chain, e.g. through entirely or predominantly non-executive boards, separation of the roles of chairman and CEO and auditors strictly appointed by and accountable to the owners at the General Meeting.
- **High transparency standards.** Nordic listed companies have been early to adopt modern standards of transparency towards their shareholders, the capital market and the surrounding society. Hence, a study in 2009, commissioned by the European Commission, ranked the Nordic member states among the top countries in all aspects of disclosure of information, analyzed in the study.

This legislative basis is today complemented by corporate governance codes, based on the *comply or explain* principle and implemented through business sector self-regulation. Such codes were introduced in the Nordic countries in the years following the millennium shift and are now well established parts of their corporate governance regulatory regimes. Through the *comply or explain* mechanism these codes act not only as complement to legislation but also as a driving force for further enhancement of corporate governance standards. Law and other mandatory regulation define the lowest acceptable standard of corporate governance that the society considers acceptable, the threshold that all companies must clear at all times. A code based on *comply or explain*, in contrast, can set the bar higher and determine not only what is acceptable but good – and even very good – corporate governance, a level that not all companies will have reason to attain at all times but which provides an aim to strive for.

Hence a well-designed combination of hard and soft regulation has proven to be the best way to foster modern and efficient corporate governance regimes. The improved standard of Nordic corporate governance since the turn of the century provides a case in point in this respect. Through extensive foreign direct investments by Nordic companies in the Baltic area it has also contributed to the significant development of Baltic corporate governance in the same period.

This is why the mission of the Baltic Institute of Corporate Governance, to promote a continued improvement of Baltic corporate governance, is of such crucial importance, not only for Baltic companies and their investors but for the further integration of these countries with the Nordic capital market. The Baltic countries are today well-established and highly developed market economies, well at par with other EU member states. The challenge, now, is to develop corporate governance regimes that meet the highest international standards, thus paving the way towards a truly integrated Nordic-Baltic capital market.

Per Lekvall

Executive Director of the Swedish Corporate Governance Board

What is BICG

MISSION

Baltic Institute of Corporate Governance pursues global class transparency and competitiveness of Baltic public, private and state or municipality owned companies through the promotion of leading corporate governance practices.

VISION

BICG as the first name in corporate governance in the Baltics. As a non-governmental association BICG provides value to its stakeholders through leading corporate governance education, development, promotion and networking.

LEADING THE WAY IN CORPORATE GOVERNANCE

*BICG is leading the way in
Baltic corporate governance
by helping to create **better**
governed public and private
companies.*

Member information

By providing balanced and open information to its members, BICG aims to create the best conditions to attract and keep a strong member base that fairly represents good governance practices in the Baltics.

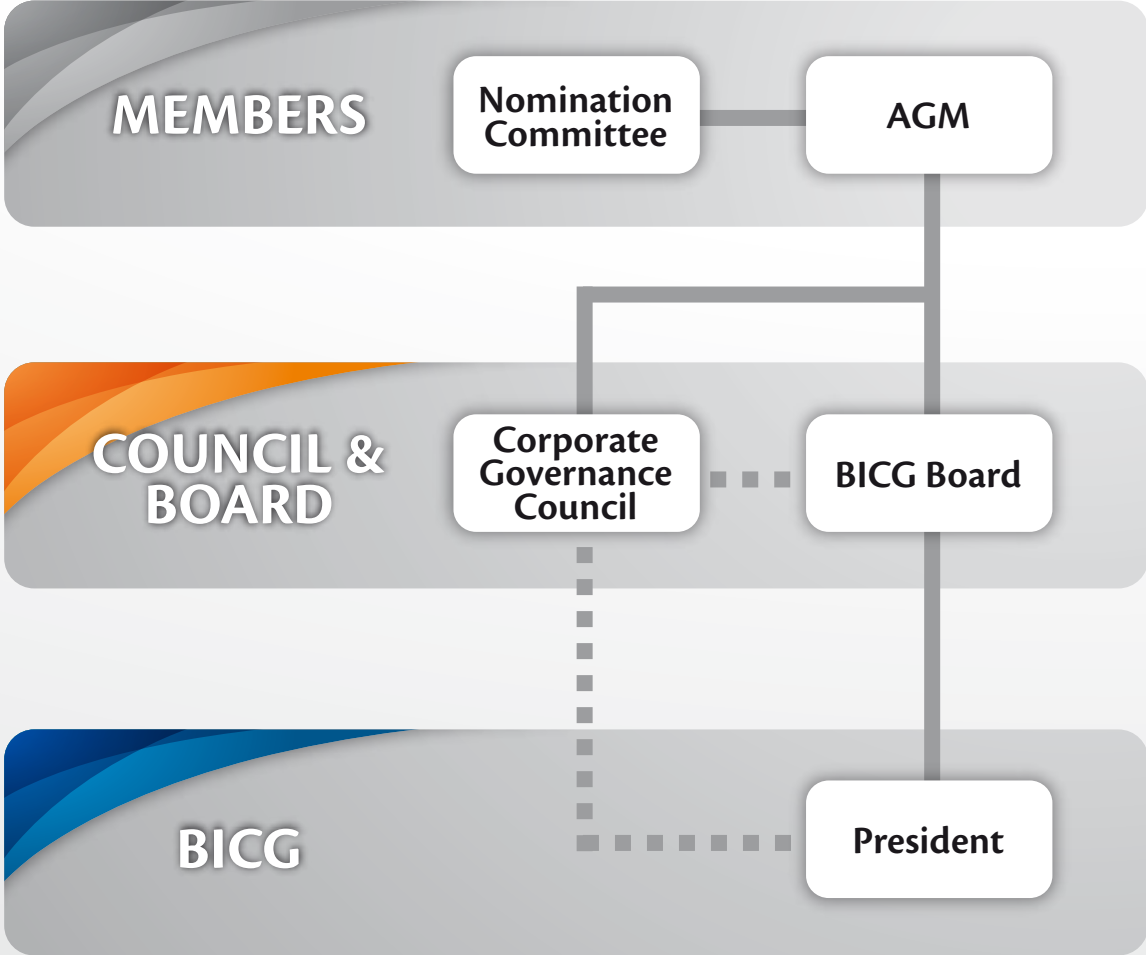
Annual General Meeting

The Institute's Annual General Meeting will be held on Friday 18 March 2011 at Radisson Blu Lithuania, Vilnius.

BICG is an association governed by its members. The relationship between the Association's members, the Board, the Council, management and other stakeholders is regulated in the bylaws of the Association. The full bylaws are publicly available on the BICG website.

BICG has two forms of membership: individual and corporate. Any person who has graduated the BICG executive education for professional board members and who pays an annual membership fee of 100 Euro will become an individual member. Corporate membership is by invitation only; corporate members must be approved by the BICG Board. Baltic members will in 2011 pay an annual membership fee of 3.000 Euro. National corporate members will in 2011 pay an annual membership fee of 1.000 Euro.

Each member has one vote at the general meeting. Only BICG individual members are eligible for the BICG Board positions. The annual general meeting (AGM) will every year elect 3 members to serve on the Nomination Committee who will do the selection of and propose to the AGM candidates for the vacant Board and Council positions.



Composition and work of the BICG Board

The General Meeting elects the BICG Board. The Board will have nine members elected by the General Meeting. The members of the Board are elected individually. At each Annual General Meeting three members of the board step down but may be reelected.

Prior to recommending candidates for election at the General Meeting, the nomination committee distributes a presentation of each candidate's background, relevant competencies and any managerial positions or positions of responsibility, and the nomination committee justifies its recommendations on the basis of the recruitment criteria it has laid down.

The Board of BICG ensure that the management observes the goals, strategies and business procedures established by the Board. Information from the management is provided systematically at meetings as well as in the BICG annual report.

The BICG Board governs the Institute and oversees the operational aspects.

The Board of BICG held five meetings in 2010.

In between its ordinary meetings, the Board receives written information on the Institute's activities, and extraordinary meetings or consultations are convened if necessary.

None of the members of the BICG Board are involved in the executive management of the Institute, and have received no remuneration for their work in 2010.



CHAIRMAN

Arminta Saladžienė
CEO,
Nasdaq OMX Vilnius



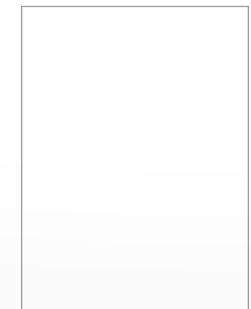
Linas Dičpetris
Ernst & Young,
Partner



Ugnius Jankauskas
Verslo Žinios,
Managing Director



Daiga Auzina-Melalksne
CEO,
Nasdaq OMX Riga



To be filled at AGM



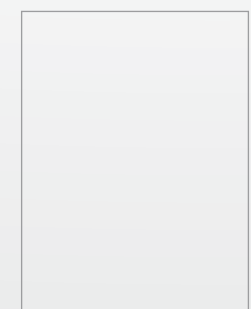
Paulius Gruodis
Glimstedt Law firm,
Associate partner



Carl Berneheim
Swedish
Chamber of Commerce,
Chairman



Andrus Alber
CEO,
Nasdaq OMX Tallinn



To be filled at AGM

Composition and work of the Corporate Governance Council

The Council members are nominated by the BICG Board and approved by the AGM for a one year term. The Council consists of 9 members, 3 from each Baltic country. The Council is led by a Chairperson, elected by the CG Council members.

The Council members set the “tone at the top” in corporate governance. They act not just as Ambassadors for the institute, but also as its formal representatives in various national, regional and international entities and events. The BICG Council advises on its strategic direction and activities, and in cooperation with the national governments, the stock exchanges and other stakeholders advises and endorses Corporate Governance guidance and codes.

The council met 3 times in 2010. In between its ordinary meetings, the Council receives written information on the Institutes activities, and extraordinary meetings or consultations are convened when necessary.

None of the members of the BICG Council are involved in the executive management of the Institute, and have received no remuneration for their work in 2010.

EE Members



CHAIRMAN
Ian Plenderleith
CEO, Tallinna Vesi

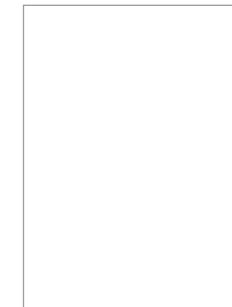


Veiko Sepp
*Ericsson country manager
Estonia, Latvia, Lithuania*



Heldur Meerits
*Council member
at LHV Pank*

LV Members



To be filled at AGM



Vitālijs Gavrilovs
*President of Employers'
Confederation of Latvia*



Dr. Juris Binde
*Chairman of Board
Latvijas Mobilais Telefons*

LT Members



Antanas Juozas Zabulis
President, UAB Omnitel



Rolandas Barysas
*Editor in chief,
Verslo Žinios*



Prof. Viktoras Butkus

BICG Management

The BICG Board appoints the President who is in charge of the day-to-day operation of the Institute. The President of BICG is not a member of the BICG Board or Council, but attends Board and Council meetings.



Kristian Kaas Mortensen,
President, Baltic Institute of Corporate Governance

*Establishing
good corporate
governance
practices will
remain a
challenge
in 2011*

2010 Financial Statement

Management and Board Statement

The Board of the Baltic Institute of Corporate Governance have today discussed and approved the Annual Report of the Institute for 2010.

The Annual Report has been prepared in accordance with Lithuanian accounting standards and audited by Deloitte.

In our opinion the financial statements give a true and fair view of the Institute's assets, liabilities and financial position at 31 December 2010 and of the results of the Institute's operations and cash flows for the financial year 2010.

Further, in our opinion the Annual Report and the audited financial statement include a fair review of the development in the Institute's operations and financial matters; the results for the year; the financial position as well as describing the significant risks and uncertainties affecting the Institute.

We recommend that the Annual General Meeting approve the Annual Report.

Vilnius, 1 March 2011

Management of Baltic Institute of Corporate Governance

Kristian Kaas Mortensen, President



Board of Baltic Institute of Corporate Governance

Arminta Saladžienė, Chairman of the Board



Paulius Gruodis, Member of the Board



Linas Dičpetris, Member of the Board



Carl Berneheim, Member of the Board



Ugnius Jankauskas, Member of the Board



Andrus Alber, Member of the Board



Daiga Auzina-Melalksne, Member of the Board



Independent Auditor's Report

To the Board of Association Baltic Institute of Corporate Governance

We have audited the accompanying financial statements of Association Baltic Institute of Corporate Governance (thereafter – “the Association”), which comprise the balance sheet as of 31 December 2010, and the performance statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Association for the period ended 31 December 2009 were not audited by us and, accordingly, we do not express an opinion on them.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Finance Minister of Republic of Lithuania Order No. 1K-372 “The rules for preparation and presentation of accounting and financial statements for non-profit limited liability entities” issued on 22 November 2004; and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Association as of 31 December 2010, and its financial performance for the year then ended in accordance with Finance Minister of Republic of Lithuania Order No. 1K-372 “The rules for preparation and presentation of accounting and financial statements for non-profit limited liability entities”.



Simonas Rimasauskas

Managing Director, Auditor
Auditor's Certificate No. 000466
UAB Deloitte Lietuva

Vilnius, Lithuania
1 March 2011



Auditor Romanas Skrebnevskis

Auditor's Certificate No. 000471

Balance sheet

AS OF 31 DECEMBER 2010


(LTL, unless otherwise stated)

	Notes	2010	2009 (unaudited)
ASSETS			
A. NON-CURRENT ASSETS			
I. INTANGIBLE ASSETS		-	-
II. PROPERTY, PLANT AND EQUIPMENT		2.145	-
III. FINANCIAL ASSETS		-	-
		2.145	-
B. CURRENT ASSETS			
I. INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS		3.212	-
II. ACCOUNTS RECEIVABLE WITHIN ONE YEAR		6.485	9.703
III. OTHER CURRENT ASSETS		3.085	-
IV. CASH AND CASH EQUIVALENTS		77.158	122.476
		89.940	132.179
TOTAL ASSETS		92.085	132.179
EQUITY AND LIABILITIES			
C. EQUITY			
I. CAPITAL		-	-
II. REVALUATION RESERVE		-	-
III. RESERVES		-	-
IV. RETAINED EARNINGS			
IV.1. Profit of the reporting year		7.364	57.747
IV.2. Profit of the previous year		57.747	-
		65.111	57.747
D. FINANCING			
I. Contributions		-	-
II. Membership fees		-	30.084
III. Other contributions		-	-
	3	-	30.084
E. ACCOUNTS PAYABLE AND LIABILITIES			
I. NON-CURRENT ACCOUNTS PAYABLE AND LIABILITIES		-	-
II. CURRENT ACCOUNTS PAYABLE AND LIABILITIES			
II.1. Accounts payable to suppliers		2.008	40.945
II.2. Advances received		18	-
II.3. Salary and related liabilities		16.656	3.403
II.4. Other accounts payable and current liabilities		8.292	-
		26.974	44.348
TOTAL EQUITY AND LIABILITIES		92.085	132.179

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

These financial statements were approved on 1 March 2011 and signed by:


Kristian Kaas Mortensen
President


Bozena Rakovska
Accountant, Scandinavian Accounting and Consulting UAB

Performance statement

FOR THE YEAR ENDED 31 DECEMBER 2010

(LTL, unless otherwise stated)

	Notes	2010	2009 (unaudited)
I. REVENUE			
Revenue from education programs		484.164	171.581
Revenue from other activities		1.411	17.264
Interest income		56	26
		485.631	188.871
II. EXPENSES			
COST OF EDUCATION PROGRAMS RENDERED	4	311.217	131.124
EXPENSE COMPENSATION		(151.474)	(3.753)
OPERATING EXPENSES		318.524	3.753
Costs of public events		106.093	2.008
Payroll expenses		94.954	-
Business trip expenses		32.632	-
Accounting and Audit services		15.306	-
Marketing and gifts		11.377	-
Communication expenses		7.267	-
Representation expenses		6.881	-
Car rent and maintenance expenses		6.870	-
Office expenses		4.862	-
Income from changes in foreign currency exchange rate, net		4.292	-
Bank services		1.482	-
Depreciation		61	-
Interest expenses		37	-
Other operating expenses		26.410	1.745
		478.267	131.124
III. PROFIT BEFORE INCOME TAX		7.364	57.747
IV. INCOME TAX		-	-
V. NET PROFIT		7.364	57.747

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

These financial statements were approved on 1 March 2011 and signed by:


Kristian Kaas Mortensen
President


Bozena Rakovska
Accountant, Scandinavian Accounting and Consulting UAB

Explanatory notes

FOR THE YEAR ENDED 31 DECEMBER 2010

(LTL, unless otherwise stated)

1. General information

Association Baltic Institute of Corporate Governance was registered on 29 September 2009. Association's code is 302441498, office is located at Jogailos str. 4 Vilnius, Lithuania.

Association Baltic Institute of Corporate Governance (thereafter – “the Association”) is a public non-profit legal entity engaged in social and educational activities, including organization of the education process, preparation and implementation of programs and methodologies in the fields of corporate governance.

The Association employed one employee both in 2010 and 2009.

2. Accounting policies

Basis of preparation

The financial statements are prepared in accordance with the Law on Accounting of Lithuania and Order No. 1K-372 of Finance Minister of the Republic of Lithuania dated 22 November 2004 “The rules for preparation and presentation of accounting and financial statements for non-profit limited liability entities”.

The financial statements have been prepared on the historical cost basis.

The accompanying financial statements are presented in the national currency of Lithuania, the Litas (“LTL”).

The Association is not required and does not prepare cash flows statement.

The principal accounting policies are set out below.

Property, plant and equipment

Property, plant and equipment are such assets, which are under the Association's ownership and control; are reasonably expected to generate economic benefits in future periods; are going to be used longer than one year; acquisition cost can be reliably measured; and acquisition value is exceeding the minimum value set for each asset group.

Depreciation is computed using the straight-line method over the estimated useful live of the related asset. Depreciation expenses are charged to the operating expenses in the Performance statement.

Property, plant and equipment with acquisition value over LTL 1.000 and useful life more than one year are capitalized.

Property, plant and equipment depreciation periods:

Group of tangible fixed asset	Useful lives
IT equipment	3 years

At the end of every year the Association reviews the estimated useful life, carrying amount and depreciation method of non-current assets and the changes in accounting estimates and judgments, if any, are recognized on a prospective basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in transit and cash in banks, demand deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Financing

Contributions and membership fees are accounted for on an accrual basis, i.e. contributions are credited to the Performance statement in the periods when related expenses, which they are intended to compensate, incur. Contributions are recognized when they are received or there is a reasonable assurance that they will be received.

Contributions related to income

Contributions related to income are received as a reimbursement for expenses already incurred or as a compensation for unearned revenue, and also all other Contributions other than those related to assets.

The used part of the financing related to the objectives of the Association during the reporting period is shown in separate account "Expense compensation" with minus sign in the Performance statement.

Contributions related to assets

Contributions related to assets include contributions to finance asset acquisitions and non-monetary asset contributions. Initially such contributions are recorded at the fair value of the corresponding assets and subsequently credited to the Performance statement over the useful lives of related non-current assets.

Revenue recognition

Revenue is recognized when it is probable that the Association will receive the economic benefit and the revenue can be reliably estimated.

Expenses recognition

Expenses are recognized on an accrual basis and revenue and expense matching principles in the reporting period when income related to these expenses was earned, irrespective of the time the money was paid.

During the reporting period the expenditure of the Association are recognized as expense of the reporting period, if they can not relate to specific income and does not foresee as income of future reporting periods.

The President's salary expenses directly attributable to education programs are recognized as cost of education programs rendered. The president's salary expense, which are not directly attributable to education program are recognized as operating expenses.

Foreign currencies

Transactions denominated in foreign currency other than Litas (LTL) are translated into LTL at the official exchange rate of Bank of Lithuania on the date of the transaction, which approximates the prevailing market rates.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Foreign currency exchange gains and losses resulting from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the Performance statement. Gains and losses arising on exchange are included in net profit or loss for the period.

As of 31 December applicable rates used for principal currencies were as follows:

2010	2009
1 EUR = 3,4528 LTL	1 EUR = 3,4528 LTL
1 LVL = 4,8643 LTL	1 LVL = 4,8679 LTL
10 EEK = 2,2067 LTL	10 EEK = 2,2067 LTL
1 SEK = 3,8407 LTL	1 SEK = 3,3449 LTL

Income tax

In accordance with the Corporate Income Tax Law for non-profit organizations, revenue received to directly satisfy the requirements of public interest is not taxable. The taxable income equivalent to 25 thousand LTL is taxed at 0 percent tax rate if revenue received from commercial activities does not exceed one million LTL, while the remainder of the taxable income - by 15 percent tax rate. If revenue from commercial activities exceeds 1 million litas, all taxable income is taxed at 15 percent tax rate.

The Association does not calculate income tax as it did not receive any income as a result of commercial activity in 2009 and 2010; and all revenue was used to satisfy the requirements of the public interest.

Related parties

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

3. Financing

At December 31 membership fees and contributions were as follows:

	2010			Total
	Membership fee	Contributions	Other financing	
Balance at 1 st of January	30.084	-	-	30.084
Receipts	50.769	69.528	1.093	121.390
Usage	(80.853)	(69.528)	(1.093)	(151,474)
Closing balance at 31st of December	-	-	-	-

	2009 (unaudited)			Total
	Membership fee	Contributions	Other financing	
Balance at 1 st of January	-	-	-	-
Receipts	33.837	-	-	33.837
Usage	(3.753)	-	-	(3.753)
Closing balance at 31st of December	30.084	-	-	30.084

4. Cost of education programs rendered

For the years ended 31 December cost of education programs rendered consisted of the following:

	2010	2009 (unaudited)
Lector fee	102,822	40,667
Salary and related expenses	86,229	1,645
Hotel / education premises	81,729	52,633
Seminar materials / Handouts	27,815	19,189
Lector travelling and accommodation expense	10,040	308
Transportation costs	1,449	15,903
Catering services	1,050	-
Representation costs	83	779
	311,217	131,124

5. Remuneration to management

Remunerations to management for the years ended 31 December:

	2010	2009 (unaudited)
President salary expenses	164.553	3.653
Average annual number of managers	1	1

There was no Remuneration or Gratuitous assets transferred for Board and Council members for the year 2010.

6. Contingencies and commitments

In 2010 and 2009 the Association was not involved in any legal proceedings that in management's opinion would have a material impact on the financial statements.

7. Post balance sheet events

No significant events have occurred after the date of financial statements and before the approval of financial statements.



Kristian Kaas Mortensen
President



Bozena Rakovska
Accountant, Scandinavian Accounting and Consulting UAB

Corporate Members

BALTIC CORPORATE MEMBERS



CORPORATE MEMBERS





BALTIC INSTITUTE
OF CORPORATE
GOVERNANCE

LEADING THE WAY IN CORPORATE GOVERNANCE

Baltic Institute of Corporate Governance is a non profit, non governmental initiative with strong involvement from the Baltic business and political leaders. Baltic Institute of Corporate Governance is leading the way in Baltic Corporate Governance by helping to create better governed public and private companies

www.corporategovernance.lt
www.corporategovernance.lv
www.corporategovernance.ee