



The Law:

Character **wins** over image

LAWIN understands the importance of making a good first impression, but we believe that a firm's underlying character, integrity and values are its greatest assets. Corporate social responsibility and the highest respect for legal ethics are at the heart of our practice.

Corporate Governance and Board Practice in Lithuania

Rolandas Valiūnas

Managing Partner

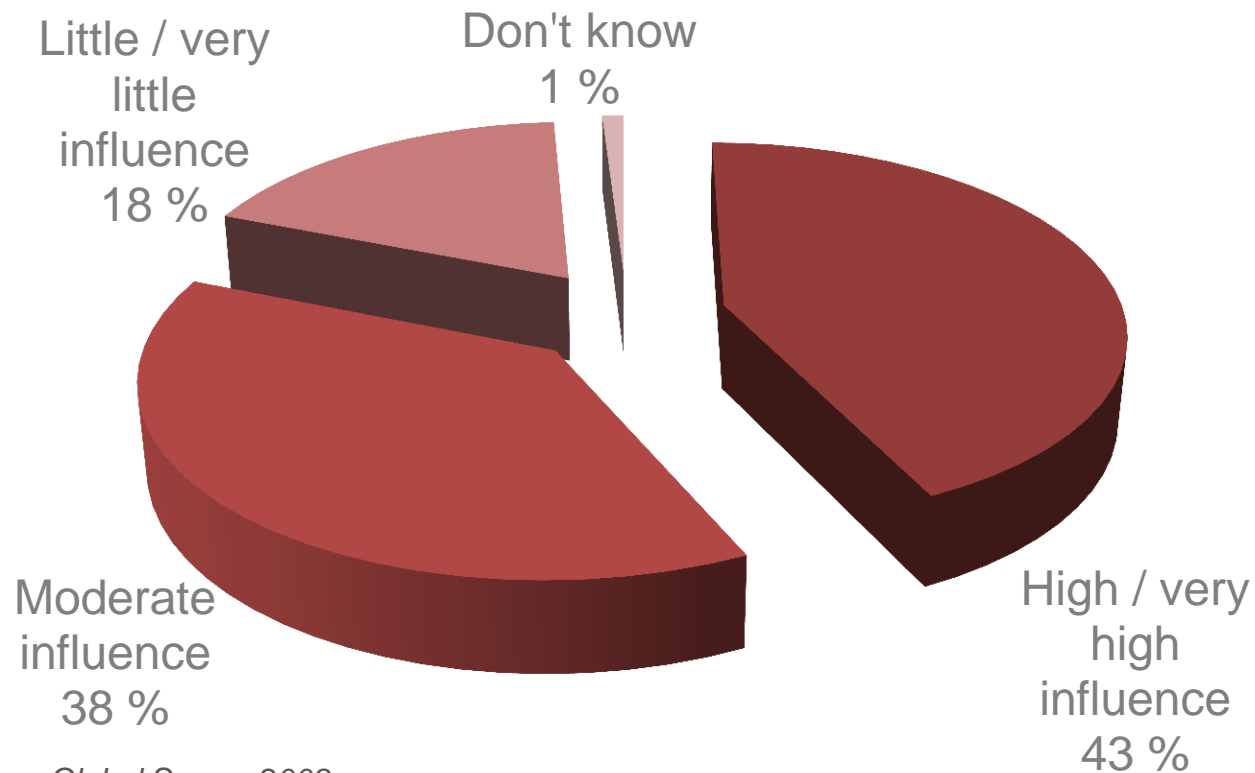
Vilnius, 8 November 2011

Board Meeting Rules: Do's and Don'ts

- / Never arrive on time, or you will be stamped a beginner
- / Don't say anything until the meeting is half over, this stamps you as being wise
- / Be as vague as possible, this prevents irritating the others
- / When in doubt, suggest that a board committee is formed
- / Be the first to move for a break, this will make you popular – it's what everyone is waiting for

Benefits of Corporate Governance

How much influence do you think your board has on creating corporate value (as measured by total returns to shareholders)?

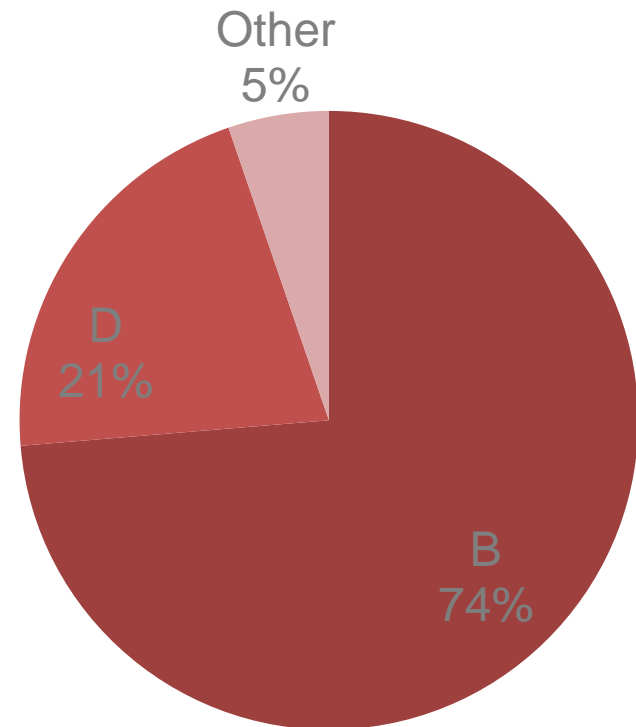


Source: McKinsey Global Survey 2008

What BMI Select Forum on Governance Thinks?

Do you believe that the board has real and effective input into success of the company?

- A Yes, but only long term
- B Yes, both for short term and long term success
- C No, the board only acts as supervisor of the CEO and his team and risk controller
- D The board has the ultimate role in successful expansion of the business
- E The board only has real effect where the companies are widely held



RESPONDENT'S COMMENTS:

- *“mainly long term but can also be valuable short term **especially in a crisis**”*

Board Models in the Western World

Anglo-Saxon

- One tier board
- Executive and non-executive board members (standard split 50/50)
- Flexible board, effective flow of information, but too “collegiate”, non-executives not independent enough

German

- Two tier board
- Managing board formed from executives and supervisory board from non-executives
- Non-executives are more independent, but the flow of information is less effective, “parliaments” run the company

Scandinavian

- One tier board
- Formed from non-executives (except for CEO)
- Flexible board, board members are independent from executives, but the flow of information is less efficient

EMPLOYEE REPRESENTATIVES:

- In Germany and Scandinavia employee representatives serve on supervisory board / board. They are not ready to serve on partly executive board.

Non-executive	
Darius Mockus	Chairman of the board, President of MG Baltic
Marijus Strončikas	Director for IT of MG Baltic
Executive	
Rimantas Perveneckas	CEO of Apranga
Ilona Šimkūnienė	Chief Procurement Officer of Apranga
Ramūnas Gaidamavičius	Chief Strategy Officer of Apranga

German model in Lithuania –



Non-executive (supervisory council)

Norimantas Stankevičius	Chairman of the supervisory council
Algimantas Goberis	
Daiva Duksienė	
Romualdas Juškevičius	
Tautvilas Adamonis	

Executive (board)

Gintautas Pangonis	Chairman of the board, CEO of Grigiškės
Nina Šilerienė	CFO of Grigiškės
Vigmantas Kažukauskas	Chief Development Officer of Grigiškės
Vytautas Juška	Chief Procurement and Logistics Officer of Grigiškės
Normantas Paliokas	

Scandinavian model in Lithuania –



Non-executive	
Malin Frenning	Chairwoman, member of remuneration committee, TeliaSonera
Lars Klasson	Member of remuneration committee, TeliaSonera
Joakim Sundström	Member of audit committee, TeliaSonera
Tiia Tuovinen	Member of audit committee, TeliaSonera
Inga Skisaker	Member of audit committee, independent board member, CEO of the Lithuanian Branch of Nordea Bank Finland
Jonas Pilkauskas	Member of remuneration committee

CG in Lithuania: where we stand

- / Lithuania does not have a clear model today
- / Pool of professional CEOs, but no pool of professional board members
- / The role of the board is not entirely understood
 - The board is a tool of the controlling shareholder(s)
 - No mix of competences of the board members
- / Supervisory council has no meaningful functions except for election of the board and usually is passive
- / Role of the board and its individual members is vague
- / Decision making and executing functions are mixed, mostly attributed to CEO
 - The board practically has only supervising functions and duplicates the supervisory council
 - Corporate powers should stem from the board to CEO not the opposite

Fiduciary duties: competence and discretion

Loyalty

- Subjective: what the board member thinks is within best interests of the company
- Duty to exercise independent judgment
- Follow articles of association and other internal documents of the company

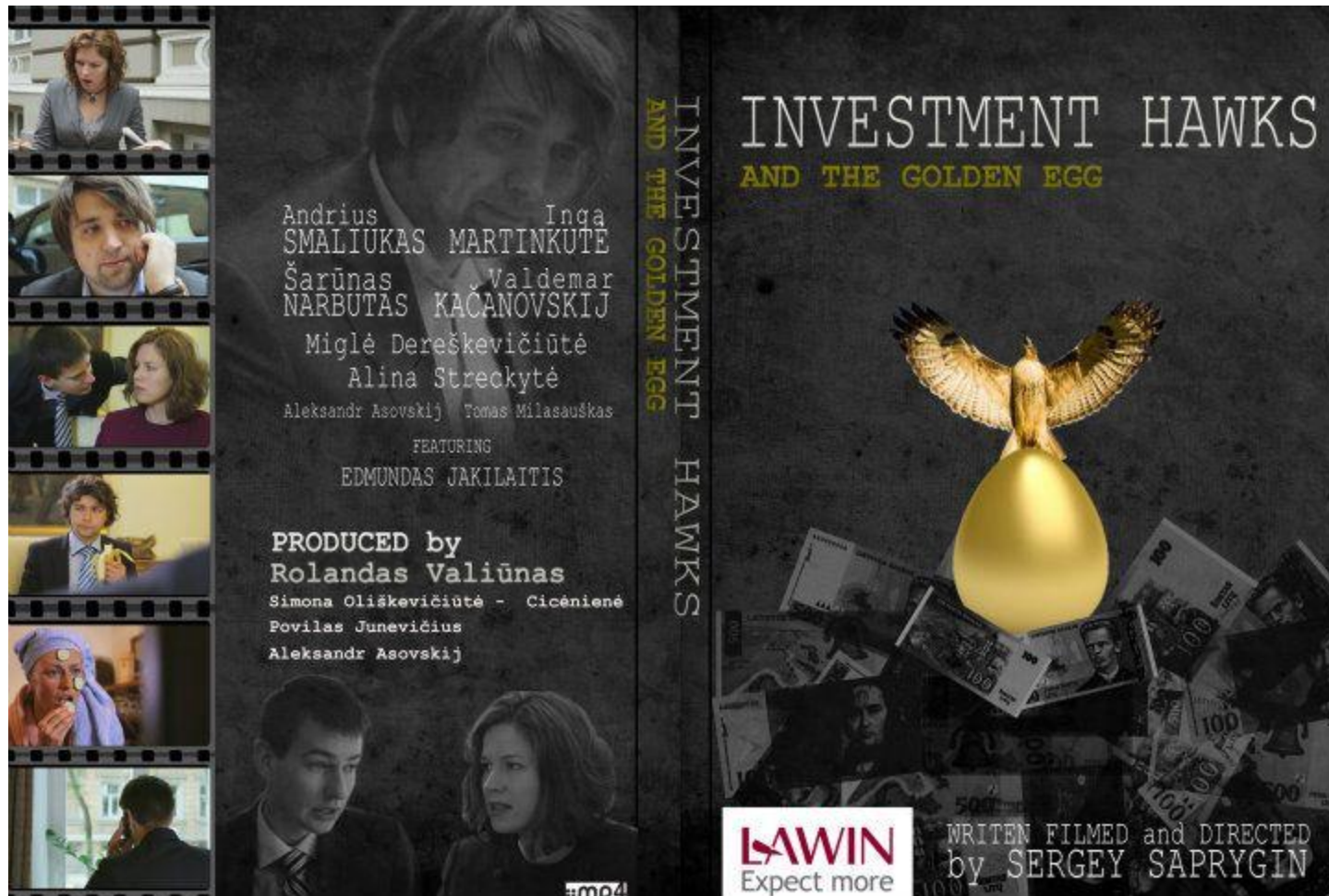
Care

- Objective: act with the same level of care as a “model” board member in similar company
- Subjective: hurdle lifted for specific knowledge of the relevant board member
- Board member with a degree in accounting may be liable for failure to overview financial statements while the one with a degree in physics may be found to have acted with due care in the same situation
- The standard is high, but...
- Protected by the business judgment rule

Conflicts of interest

- May conclude transactions in the conflict of interest situation, but...
- Duty to inform the board / shareholders
- What about a new business opportunity – can a board member take up new business opportunity without informing the company?

And now... world premiere!



INVESTMENT HAWKS
AND THE GOLDEN EGG

INVESTMENT HAWKS
AND THE GOLDEN EGG

Andrius SMALIUKAS Inga MARTINKUTE
Šarūnas NARBUTAS Valdemar KACANOVSKIJ
Miglė Dereškevičiūtė
Alina Streckytė
Aleksandr Asovskij Tomas Milasauškas

FEATURING
EDMUNDAS JAKILAITIS

PRODUCED by
Rolandas Valiūnas
Simona Oliškevičiūtė - Cicėnienė
Povilas Junevičius
Aleksandr Asovskij

WRITTEN FILMED and DIRECTED
by SERGEY SAPRYGIN

LAWIN
Expect more

#mp4

Fiduciary duties: competence and discretion

Loyalty

- Subjective: what the board member thinks is within best interests of the company
- Duty to exercise independent judgment
- Follow articles of association and other internal documents of the company

Care

- Objective: act with the same level of care as a “model” board member in similar company
- Subjective: hurdle lifted for specific knowledge of the relevant board member
- Board member with a degree in accounting may be liable for failure to overview financial statements while the one with a degree in physics may be found to have acted with due care in the same situation
- The standard is high, but...
- Protected by the business judgment rule

Conflicts of interest

- May conclude transactions in the conflict of interest situation, but...
- Duty to inform the board / shareholders
- What about a new business opportunity – can a board member take up new business opportunity without informing the company?

CG in Lithuania: where we stand

/ Momentum for change

- Financial crisis revealed poor or no management of risks in the companies, important decisions were taken blindly, uninformed, unilaterally
- The State seeks to reform management of companies controlled by it

/ Should we choose a particular board model?

/ CG regulation is now flexible – probably we should allow foreign investors adapt their CG models to local group companies

/ Reflect on the fact that many companies are “Baltic” and Latvia and Estonia have the German board model

The board model in Lithuania

/ Why should we have (chose from existing) our particular board model

- To define terms of play in the boards – now understanding differs
- To promote corporate (collegiate) culture
- To create board member pool who would serve in a clearly understood board, otherwise talent is wasted

/ Nordic model

- Would suit us but do we have enough talent to have non-executive boards with “hands-on approach”, risk of manipulation by CEOs

/ Anglo-Saxon model

- Would be a real step towards corporate (collective) management, but for the State controlled companies might not be realistic to nominate executive board members and set market level remuneration by the shareholder (the State), also does it fit the concentrated shareholdings that we have?

/ German model

- Too small companies and no pool of the board members to create “corporate parliaments”

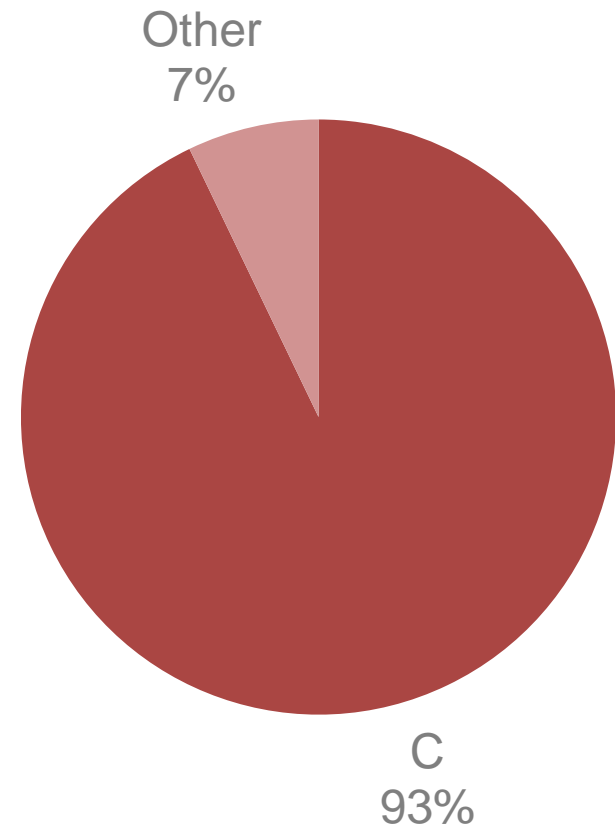
What BMI Select Forum on Governance thinks?

Do you think that creating a professional board member pool and installing active boards in the companies would lead to better entrepreneurship and expansion of Lithuanian companies?

- **A** No, entrepreneurship and expansion depends on other factors, such as available financing
- **B** No, all the big businesses are and will be controlled by the foreign investors and will form a small part of foreign groups
- **C** Yes, professional corporate management would have considerable role in entrepreneurship and expansion of the Lithuanian companies

RESPONDENT'S COMMENTS:

- *"In Entrepreneurship and startups, board is needed to **take organization to the next level**, pro board members needed for mentoring in startups."*



Positive note for closing: independent board members



LAWIN
Expect more

www.lawin.com