

**2002 NIS/CEE ISSUER DISCLOSURE AND
CORPORATE GOVERNANCE TRAINING PROGRAM**

Sponsored by

**LITHUANIAN SECURITIES COMMISSION (LSC)
EAST-WEST MANAGEMENT INSTITUTE (EWMI)
U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)**

**Hotel Sarunas
Vilnius**

September 9 - 13, 2002

Monday, September 9

8:30 Registration

9:00 Welcome, introductions and opening remarks

Virgilijus Poderys, Chairman, LSC

William Davnie, Deputy Chief of the US Mission in Lithuania, US Embassy, Vilnius

Bradley Wallach, Division Chief, Financial Sector and Privatization

Office of Market Transition, Bureau for Europe and Eurasia, USAID

Geoffrey Mazullo, Director, Partners for Financial Stability (PFS) Program, EWMI

Robert D. Strahota, Assistant Director, SEC Office of International Affairs

9:30 Program overview and objectives

Securities Act of 1933-What is a public offering?

Registration requirements; definitions; exemptions

Effectiveness of the registration statement; acceleration

Cease and desist and other administrative sanctions

Antifraud and civil liability provisions

How are disclosure requirements established?

Rulemaking

Speaker: Mr. Strahota

Commentary: What offerings require LSC approval, what is LSC's enforcement authority, and who may be held responsible for false statements in the offering documents?

Irmantas Simonis, Vice Chairman, LSC

10:30 Break

10:45 Introduction to the Division of Corporation Finance

Organization; assignment of filings by industry

Office of Chief Counsel; interpretations, "no action" letters

Office of Chief Accountant; pre-filing conferences

Other specialists within the Division

Qualifications of personnel; staff training

Public availability of information

Workload statistics, Selective review procedures

**Speakers: Mark P. Shuman, Special Counsel
Edward Loftus, Assistant Chief Accountant
SEC Division of Corporation Finance**

Key elements of the accounting review
Preparation of accounting comments for the letter of comment
Negotiating compliance with accounting comments

Speaker: Mr. Loftus

5:00 LSC disclosure and reporting requirements for IPOs

Speaker: Egle Surpliene, Commissioner, LSC

7:00 Opening reception

Tuesday, September 10

9:00 Becoming "effective" and making the offering
How the issuer responds to the letter of comment
Filing and processing of amendments; updating requirements
Appealing staff comments
Requests for acceleration of the effective date
Distribution of the preliminary prospectus; re-circulation
Effectiveness; delegation of authority procedures
Underwriting syndicate; book-building; road shows
Pricing and other changes in the final prospectus
Prospectus delivery
Closing conditions; comfort letters

Speakers: Mr. Jonak and Mr. Shuman

10:45 Break

11:00 Risk factors disclosure - Item 503 of Regulation S-K
Explanation of the risk factors disclosure requirement
Risks associated with blank check and blind pool offerings
Liquidity-going concern problems
Dealing with issuers and other persons who are under investigation or have previously engaged in securities fraud

Speaker: Mr. Shuman

11:30 Management's discussion and analysis ("MD&A")
Reasons why MD&A is required
Analysis of trends in the financial statements
Liquidity and capital resources
Known events or uncertainties that may cause the historical financial statements not to be indicative of future results
Pending or threatened litigation
Forward-looking information; safe harbor rules

Speakers: Messrs. Strahota and Loftus

12:15 Lunch Break

1:30 NASDR review of corporate financing documents
Explanation of NASDR procedures for review
of underwriting compensation and arrangements
Free riding and withholding
Lock-up Agreements

Speakers: Mr. Strahota and Ms. Steele

2:15 Problems relating to best efforts underwriting; hypotheticals
Exchange Act Rule 10b-9 and all or none and
minimum or none offerings
Exchange Act Rule 15c2-4, safeguarding subscription funds
Updating prospectus disclosures

Speakers: Messrs. Strahota and Shuman

3:00 Break

3:15 Liaison with the Division of Enforcement: financial fraud
Referral of cases of possible fraudulent or false and
misleading disclosure to the Division of Enforcement
How financial fraud cases are developed and prosecuted
Examples of financial fraud

Speakers: Messrs. Loftus, Shuman and Strahota

4:15 Discussion with audience participation: Which offerings should be
licensed and which should be exempt in emerging markets?

Transactions by issuers, underwriters or dealers?
Public offerings by publicly-traded companies?
Offerings to existing shareholders?
Sales below certain monetary thresholds?
Nonpublic offerings?
Notice to the regulator?
Information disclosure?
Prohibitions on general solicitation and advertising?
Sales to and among institutional or sophisticated investors?
Restrictions on resales?
Prohibitions on fraud?

Discussants: Irmantas Simonis, Vice Chairman, LSC
Messrs. Shuman and Strahota

Wednesday, September 11

9:00 **Discussion of regional disclosure and financial reporting problems**

The participants will be broken up by countries into 3-4 discussion groups, each of which will be led by one of the speakers. Each country's representatives will be asked to identify 1-2 of the most important disclosure and financial reporting problems that have arisen in their country. After a 15-minute break, the participants will reassemble and representatives from each country will present these problems for analysis and suggested solutions by the audience and speakers.

12:15 **Lunch Break**

1:30 **Overview of the full disclosure provisions of the Securities Exchange Act of 1934 ("Exchange Act")**

**Issuers required to file reports with the SEC
Annual, quarterly and current reporting requirements
Proxy and information statement requirements
Going private transactions
Beneficial ownership and tender offer rules
Section 16 insider reporting and insider trading prohibitions
Internal accounting control provisions
Antifraud and civil liability provisions**

Speakers: Mr. Strahota and Ms. Steele

Commentary contrasting LSC periodic reporting requirements

Speaker: Egle Surpliene, Commissioner, LSC

3:00 **Break**

3:15 **Non-financial review of issuers' periodic reports**

**Integrated disclosure system; selective review criteria
Non-financial disclosure requirements
Failure to make timely filings; extension requests
Preparation of comments; "futures" comments
Amendment process
Confidential treatment requests**

Speaker: Mr. Shuman

Wednesday, September 11 - continued

3:45 **Accounting review of issuers' periodic reports**
 Selective review criteria
 Financial statement requirements
 Financial statements of acquired businesses
 Comments; "futures" comments and amendments

Speaker: **Mr. Loftus**

4:15 **Break**

4:30 **The Annual Stockholders' Meeting – Disclosure Requirements**

Speakers: **Messrs. Shuman and Strahota**

Thursday, September 12

9:00 **Disclosure requirements for tender offers and business combinations**
 Beneficial ownership disclosure
 Cash tender offers
 Mergers and acquisitions; exchange offers
 Pro forma financial statement requirements

Speakers: **Messrs. Shuman, Loftus and Strahota**

10:45 **Break**

11:00 **Timely disclosure of material corporate information**
 Rule 10b-5 and the "law of inside information"
 Stock exchange disclosure policies
 Duties to correct and update information

Speaker: **Ms. Steele**

11:45 **Presentation regarding the National Stock Exchange of Lithuania (NSEL)**

Speaker: **Saulius Malinauskas, Director of the Listing Department, NSEL**

12:15 **Lunch Break**

Thursday, September 12 - continued

1:30 **Comparative analysis of corporate governance and shareholder rights in NIS/CEE countries**

Speaker: **Mr. Mazullo**

Commentary: **Zilvinas Zinkevicius**
Law Firm of Lideika, Petrauskas, Valiunas and Partners

3:15 **Break**

3:45 **Suggested corporate governance procedures that implement the OECD Principles of Corporate Governance**

Speaker: **Mr. Strahota**

Friday, September 13

9:00 **Presentation of results of survey of information available on web sites of 42 securities commissions**

Speakers: **Mr. Jacek Sobczak, Chief Operating Officer,**
Digital Strategies Group
Mr. Mazullo

10:15 **Break**

10:30 **Case studies**

The participants will be organized into three groups (not necessarily by country) to analyze, discuss and propose solutions to three cases that will be distributed in advance of this session. One of the speakers will work with each group to outline the case and facilitate discussion. The cases will cover disclosure and financial fraud, insider trading and corporate governance problems.

12:15 **Closing Remarks and Presentation of Certificates**

and **Virgilijus Poderys, Chairman, LSC and Messrs. Mazullo,**
Strahota

12:45 **Lunch**

2001 NIS/CEE ISSUER DISCLOSURE AND CORPORATE GOVERNANCE TRAINING PROGRAM

September 9 – 13, 2002

LIST OF PROGRAM MATERIALS*

A. MONDAY

- 1. SEC Organization Chart**
- 2. Division of Corporation Finance Organization Chart**
- 3. The U.S. Securities and Exchange Commission: Organization and Operation**
- 4. Securities Act of 1933 ("Securities Act") and Selected Rules**
- 5. SEC Registration of Public Offerings Under the Securities Act of 1933, William W. Barker, Senior Counsel, Division of Corporation Finance, reprinted from Business Lawyer, Vol. 52, November 1996**
- 6. Form S-1 Registration Statement Under the Securities Act**
- 7. SEC Regulation S-K, Items 101-601**
- 8. Accounting and Auditing; prepared by the SEC Office of the Chief Accountant**
- 9. SEC Accounting Regulation S-X (selected rules only)**

B. TUESDAY

- 10. National Association of Securities Dealers Free-riding and Withholding and Corporate Financing Rules**
- 11. Securities Exchange Act of 1934 ("Exchange Act") Rules 10b-9 and 15c2-4**
- 12. Investigating Financial Fraud, prepared by SEC Division of Enforcement**

Participants also should read Items 303 and 503 of Regulation S-K (Tab A.7)

C. WEDNESDAY

- 13. Exchange Act Sections 10(b) 11(d), 12, 13, 14, 15(c)(4), 15(d), 16 and 21C, and Rules 10b-5, 10b5-1, 10b5-2, 13b2-1 and 13b2-2**

14. **Form 10-K Annual Report**
15. **Form 10-Q Quarterly Report**
16. **Form 8-K Current Report**
17. **Exchange Act Rules 14a-3, 14a-4 and 14a-9 and Schedule 14A**

D. THURSDAY

18. **SEC Regulation M-A (Items 1001-1016 of Regulation S-K). Participants should also read Article 11 of Accounting Regulation S-X (Tab A.9)**
19. **Exchange Act Rule 13d-3 (definition of beneficial ownership, Schedules 13D/G (statements of beneficial ownership), Schedule TO (tender offer statement) and Schedule 14d-9 (solicitation/recommendation statement)**
20. **Timely Disclosure of Material Information: Law and Expectations in the U.S. Marketplace, prepared by Robert D. Strahota, Assistant Director, Office of International Affairs**
21. **SEC Regulation FD (as in effect August 2001)**
22. **OECD Principles of Corporate Governance**

E. FRIDAY

Cases for discussion will be distributed in advance of the Friday morning session.

In addition to the above materials, participants will receive a binder containing actual examples of a prospectus for an initial public offering, annual report on Form 10-K, Quarterly Report on Form 10-Q, Current Report on Form 8-K, and proxy statement relating to an annual meeting of stockholders at which directors are elected.

*** This manual contains materials prepared by the staff of the SEC and other speakers and organizations. The views expressed in these materials are those of the respective authors and do not necessarily reflect the views of the SEC, individual SEC commissioners or others on the staff of the SEC.**

**International equity offering by an
emerging market company -
a Polish example**

Jacek Jonak

Vilnius, 9-10 Sept, 2002

Scope

- ◆ A Polish company intends to conduct an offering of shares which is targeted at Polish investing public and at sophisticated investors outside Poland (with or without depository receipts programme).

Reasons

- ◆ Size
- ◆ Price
- ◆ Shareholder base
- ◆ Access to international markets
- ◆ Publicity

Principal types

- ◆ Categories by type of foreign investor:
 - euro (Regulation S) offering
 - Rule 144A offering
- ◆ Categorized by type of security:
 - shares
 - depositary receipts (DRs)

What is a DR?

- ◆ A depositary receipt (a “DR”) is a negotiable instrument created by a depositary bank in certificated form evidencing ownership of securities issued by another entity.

Why are DRs created ?

- ◆ DRs confer rights to the underlying securities in a convenient form
 - withdrawal
 - dividends in US dollars
 - English language corporate information
 - voting rights
- ◆ Customary trading and settlement procedures

The process

- ◆ Onstage (seen by the SEC)
 - filing and approving the Prospectus, disclosure to the public
 - launch, pricing and allocation, closing and listing

The process (*contd.*)

- ◆ Backstage (what SEC knows is happening)
 - hard work of everyone involved
 - “some less relevant” matters

Documentation (core)

- ◆ Mandate letter
- ◆ Polish prospectus and updates
- ◆ International offering circular
- ◆ Underwriting agreement
- ◆ Deposit agreement

Mandate letter

- ◆ Usually not seen by lawyers, sets out the scope of work and responsibilities of the Managers, fees and expenses, documentation structure and indemnities.
Very useful when things get hot.

Polish prospectus

- ◆ Must follow detailed regulatory guidelines
- ◆ Different parts drafted by different advisors
- ◆ Civil liability for misstatements and omissions:
 - full for the issuer, selling shareholder and on-selling underwriters
 - limited for drafters and others who use the information

Polish prospectus (*contd.*)

◆ Contents:

- Description of the issuer and its business
- Description of the affiliates of the issuer
- Management discussion and analysis
- Financial information (“Polish GAAP”)
- Description of the offering (not to amend)
- Liability statements
- Risk factors

International offering circular

- ◆ Marketing document, not extensively regulated as to its contents
- ◆ Drafted by lawyers
- ◆ Civil liability of the Managers under English and US laws
- ◆ No discrepancies between Polish prospectus and IOC

International offering circular (*contd.*)

◆ Contents:

- Summary
- Risk factors
- Business Description
- MD&A
- Share rights
- GDR conditions
- Financial information (usually IAS)

Due diligence

- ◆ Scope (Polish prospectus vs. IOC)
- ◆ US influence (10b-5 opinion)
- ◆ Why do it?
- ◆ How to do it?

Filing prospectus with SEC

- ◆ Detailed review
- ◆ Deadlines:
 - 2 months for approval, or
 - 30 days for no-objection
- ◆ Discussions with the Warsaw Stock Exchange and National Depository for Securities

SEC approving prospectus

◆ Consequences:

- issuer becomes a public company
- restrictions on informal disclosure
- obligations to update the prospectus
- secondary market in existing shares (if any) is restricted

BREAK

ALLEN & OVERY

Preparing offering

- ◆ International blackout period starts.
- ◆ Polish prospectus must be released no later than one week before the launch of the retail tranche.

Offering - first stage

- ◆ Pre-registration/registration of shares with National Depository for Securities and Warsaw Stock Exchange.
- ◆ Domestic retail tranche is launched.
- ◆ Inviting co-managers signing agreement among managers and inter syndicate agreement.

Offering - first stage (*contd.*)

- ◆ Issuer goes to roadshows. The sole marketing documents are Polish prospectus in Poland and preliminary offering circular internationally. There are some difficult liability matters, though.
- ◆ Managers conduct book-building exercise (Polish and international).
- ◆ Signing a non-binding underwriting agreement.

Pricing and initial allocation

- ◆ Bring-down due diligence call.
- ◆ On the basis of book-building, in lengthy and tough discussions, the issuer, selling shareholder and the managers agree the final price and number of shares to be offered.

Pricing and initial allocation (*contd.*)

- ◆ Final international offering circular is released.
- ◆ Parties execute binding underwriting commitments.
- ◆ Secondary trading starts on a foreign (usually London) stock exchange.

Underwriting agreement

- ◆ Managers change the role.
- ◆ Different regulatory treatment of stand-by vs. on-sell underwriting, problems with Rule 144A treatment.

Underwriting agreement (*contd.*)

◆ Contents:

- Closing mechanics
- Representations and warranties
- Undertakings
- Conditions precedent (accuracy of representations of warranties, no breach of agreement, no adverse change, no force majeure, comfort letters, 10b-5 opinion)

Underwriting agreement (*contd.*)

◆ Contents (*contd.*):

- Indemnities
- Lock-up
- Selling restrictions
- Indemnities

Closing

- ◆ If all conditions precedent are satisfied, this is just a settlement exercise. But it involves a number of Polish and international cash and securities settlement issues which everyone tends to ignore until very late.

Closing

- ◆ Once the settlement is completed, the trading starts in Warsaw.
- ◆ Final Polish prospectus is published. Issuer is now subject to continuous disclosure obligations.

Stabilisation

- ◆ Purpose
- ◆ Legal implications
- ◆ Method
- ◆ Greenshoe

Summary (timing)

- ◆ Mandate
- ◆ Building the team
- ◆ Due diligence and drafting (1-3 month)
- ◆ SEC filing
- ◆ Sec approval
- ◆ Publication of the prospectus

Summary (timing)

◆ Launch

- Invite co-managers
- Issue preliminary offering circular
- Marketing/book-building (10 days-3 weeks)

Summary (timing)

◆ Pricing

- Sign underwriting agreement
- Final offering circular
- Allotment

then:

- Trading starts
- Stabilisation may occur

Summary (timing)

◆ Closing

- Conditions precedent
- Sign Deposit Agreement (if applicable)
- Delivery vs. payment



Lithuanian Securities Commission

2002 NIS/CEE ISSUERS DISCLOSURE and
CORPORATE GOVERNANCE

TRAINING PROGRAM

September 9 –13, 2002

Vilnius



LSC's approval required for

- All public companies
- All issues



Enforced upon entry into the EU (according to Directive 89/298/EEC)

➤ Offers:

- To persons in the context of their trade, profession or occupation
- To a restricted circle of people
- Where selling price does not exceed 40 000 EUR

➤ Securities:

- Denomination at least 40 000 EUR
- Government securities
- Offered in connection with a take-over bid or merger
- Allotted free of charge
- Shares offered in exchange for shares
- Offered for the benefit of employees
- Resulting from the conversion
- Euro-securities



LSC as enforcement authority

- LSC' s legal status and capacities
 - Rulemaking
 - Supervision
 - Enforcement



Possible enforcement actions

- Fine under the Law on Securities Market (up to par value of the offered securities)
- Revocation of a license
- Criminal action
- Administrative fine (up to 1400 USD)



Liabile persons

Issuers

Managers

Intermediaries

Consultants



Civil remedy problems

- difficulties of proof
- no presumption of causal link
- no class action
- no “American Rule” or contingency fee
- no punitive damages



Enforcement actions in 2002

- 23 administrative measures
- no civil actions



Future developments

Less public companies – stronger emphasis on disclosure

Promotion of civil action



Lithuanian Securities Commission

Questions

Thank you.

September 9 –13, 2002

Vilnius



Lithuanian Securities Commission

LSC DISCLOSURE AND REPORTING REQUIREMENTS FOR IPO

September 9 –13, 2002

Vilnius



DISCLOSURE AND REPORTING REQUIREMENTS FOR IPO

- Legal basis
- Obligation to register
- Objectives of registration with the LSC
- Peculiarities of Public Offerings
- Procedures
- Right to refuse the request
- Different level of information disclosure
- Contents of the prospectus



DISCLOSURE AND REPORTING REQUIREMENTS FOR IPO (continue)

- Subscription report
- Periodical reporting
- Material events
- Acquisition of block of shares
- Tender offers



Legal basis

- The Law on Securities Market
- The Rules on Registration of Securities

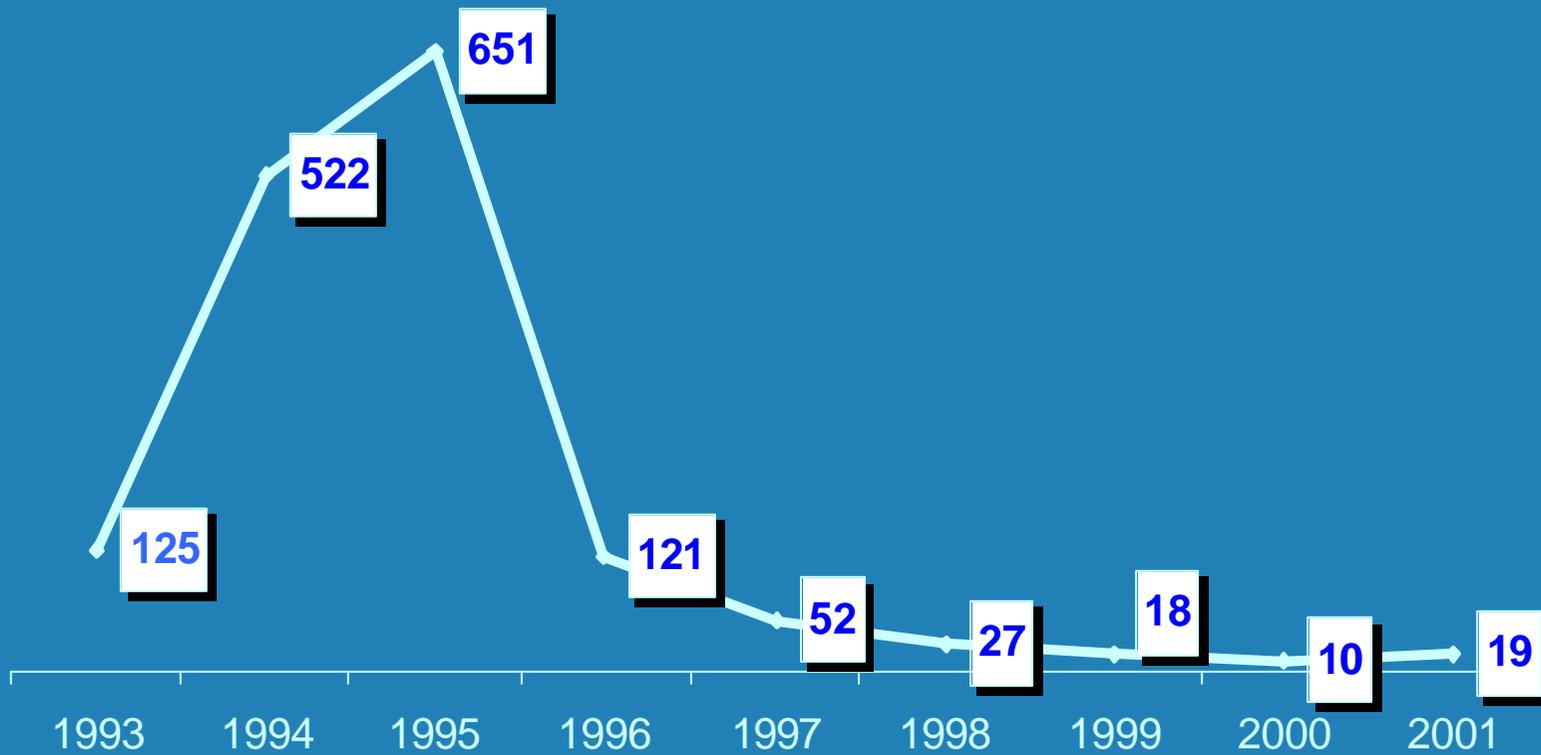


Obligation to register

- Any Public Company
- Any Public Offering



Number of issuers who have been registered their securities with the LSC during 1993-2001





Public Offerings during 1997-2001

	Number of issues	Total value of issues (mln USD)
1997		87,3
1998	36	120,6
1999	29	33,7
2000	21	36,1
2001	11	12,2



Objectives of registration with the LSC

- Registration does not mean recommendation
- Equal conditions for all investors



Peculiarities of Public Offerings

- Prohibition to advertise securities and announce subscription if securities have not been registered with the LSC
- Obligation to publish a full prospectus or an advertisement indicating where it may be accessed
- Only information contained in the prospectus or regular reports may be used in advertisements



Procedures

- Decision should be taken within 30 days after application
- Documents should be in line with laws and regulations
- Right to ask for additional information
- Right to appeal the decision to courts



Right to refuse the request

- Issuer fails:
 - to abide by the rules of data submission prescribed by the LSC
 - to submit documents, data or explanations specified in the Law, or it has turned out that they are incorrect
- Securities are issued in violation of the laws or regulations of the LSC



Revocation of the registration of securities

- The conditions mentioned previously have been detected after registration of securities
- Issuer has violated the procedure of primary trading in securities



Different level of information disclosure

- Two form of prospectus – to be presented :
 - Securities intended for admission to the Official Trading List of the National Stock Exchange of Lithuania
 - Securities placed for public offering
- Memorandum for private placements



Contents of the prospectus

- Summary
- Information about the auditor
- Statement that the information provided is clear, true and complete
- Details of the offering
- Risks factors
- Information about the issuer and the capital of the issuer
- Economic, market and financial position of the issuer
- Management of the issuer
- Recent events and the strategy for the nearest financial year



Subscription statement

- Provided to the LSC and the Central Depository after registration of the authorized capital (in cases of stock offering) or when the offering is complete (for securities other than shares)



Periodical reporting

- Annual report:
 - all issuers
 - within one month following the general meeting of shareholders
 - audit statement included
- Semi-annual report:
 - if securities are admitted to the Official or Current Trading List of the NSEL
 - within two months after the end of the first half of the current financial year



Periodical reporting (continue)

- Quarterly report:
 - if securities are admitted to the Official Trading List of the NSEL
 - within one month after the end of the first (third) quarter of the financial year
- Notification on the annual general meeting of shareholders
- Reports (or announcement about report) to be announced in a national daily if securities are admitted to the Official or Current Trading List of the NSEL



Material events

- Obligation to inform the LSC, stock exchange, on which the securities are listed, and at least two national news agencies or daily periodicals
- Disclosure terms:
 - immediately , if securities are listed on the stock exchange
 - within 5 working days for non-listed issuers
- “Confidential information”



Acquisition of block of shares

- Obligation to inform about acquisition or disposal of $1/10$, $1/5$, $1/4$, $1/3$, $1/2$, $2/3$, or $3/4$ of votes at the general meeting of shareholders
- Obligation to inform the LSC and the issuer within 7 days
- Commission must inform the public within 9 days
- Exemption for intermediaries



Tender offer

- Mandatory Tender Offer:
 - 40 per cent threshold;
 - Price – not lower than the highest price of the securities which the bidder acquired over one year before exceeding the threshold
- Prohibition to acquire securities at a price higher than the offer price within one year after the offer without paying difference of the price to persons who replied to the offer



Lithuanian Securities Commission

Questions

Thank you.

September 9 –13, 2002
Vilnius

EAST • WEST
MANAGEMENT
INSTITUTE



Partners for Financial Stability (PFS) Program

www.ewmi.hu

Geoffrey Mazullo

Director

**Comparative Analysis of Corporate Governance
and Shareholders' Rights**

in EU, CEE and SEE Countries

September 12, 2002 – Vilnius, Lithuania

Corporate Governance in CEE: Developments from 1990-2002

1990 – 2000	2000 - 2002
Stock Exchanges re-opened; Securities Commissions established: CZ (1998); H (1991); LT (1992); PL (1991)	Establishment of Consolidated Financial Supervisory Authorities: EE (2002); H (2000); LV (2001); SK (2000)
Regional funds, targeted funds, socially-responsible funds begin investing in CEE	European Commission (EC) proposes use of IAS by listed companies by 2005
US pension funds begin voting at foreign AGMs and EGMs; failed Volvo-Renault merger (1993)	US SEC issues Regulation Fair Disclosure
Requirements to disclose risk management policies; ownership disclosure thresholds lowered	Mergers of European stock exchanges – Helsinki Stock Exchange acquires Tallinn and Riga SEs
Insider trading criminalized	Requirements to disclose directors' dealings
Wider implementation of IAS by listed companies	Failure of EC's takeover directive
Beginning of online Investor Relations (IR)	<i>Neuer Markt</i> issues four new sets of regulations in 2001
Rating agencies begin work in CEE	Impact of collapse of Enron - ?

Comparative Analysis of Corporate Governance and Shareholders' Rights

**Conducted by German Shareholders' Association
DSW in 1998**

www.dsw-info.de

Conducted by PFS Program in 2000 and 2001

<http://www.ewmi.hu/publications.html>

Table 1

Deadline for Announcing AGM

Legal Framework in CEE and SEE

In general, in line with EU practices

Common Practice in CEE and SEE

In general, no problems here

Table 2

Type(s) of Shares Issued

Legal Framework in CEE and SEE

In general, in line with EU practices

Common Practice in CEE and SEE

In general, no problems here

Table 3

Registration and Deposit

Legal Framework in CEE and SEE

**More comprehensive and specific legal framework
required in some countries**

Role of company register

Common Practice in CEE and SEE

Problems require legal /regulatory improvements

Table 4

Right to Convene AGM

Legal Framework in CEE and SEE

In general, in line with EU practices

Common Practice in CEE and SEE

In general, no problems here

Table 5

Right to Place Additional Item on Agenda of AGM

Legal Framework in CEE and SEE
In general, in line with EU practices

Common Practice in CEE and SEE
In general, no problems here

Table 6

Right to Present a Counter-motion at AGM

Legal Framework in CEE and SEE
In general, in line with EU practices

Common Practice in CEE and SEE
In general, no problems here

Table 7

Restriction of Voting Rights

Legal Framework in CEE and SEE

In general, in line with EU practices

Common Practice in CEE and SEE

**Two parallel trends – towards abolishment
(Sweden) and adoption (France)**

Table 8

Proxy Voting

Legal Framework in CEE and SEE

In many countries, a more comprehensive and specific legal framework required

Role of company register

Common Practice in CEE and SEE

Problems require legal / regulatory improvements

Table 9

Quorum

Legal Framework in CEE and SEE

In general, in line with EU practices

Role of company register

Common Practice in CEE and SEE

Quorum is a problem everywhere

Other Issues

Accountability of Management and Board

Accounting Standards - IAS

Audit – Relationship with Management and Board

Online Disclosure

Role of Pension Funds as Shareholders

Takeover Bids

Timeliness of Disclosure

Relationship between Effective Corporate Governance and Share Price

Wiltshire study – 2001

“CalPERS Effect activism resulted in certain companies jumping from 96% of the Wiltshire index (of 5000 companies) to 14% over the index.”

McKinsey study – 2000

“Institutional investors note that quality of the board is often a more important criteria than financial data in selecting stocks.”

University of Vienna (Klaus Gugler) – 2000

“Shareholder monitoring is critical where blockholders wield control.”

Millstein/MacAvoy study – 1999

Investors will pay a premium for shares of a company with a good board.

Criteria for Investing in CEE Listed Companies

**Primary Criteria for Portfolio Investment Decisions
in Central and Eastern Europe**

ZEW study, October 1999

General	Microeconomic – Company Specific	Financial Markets

Criteria for Investing in CEE Listed Companies

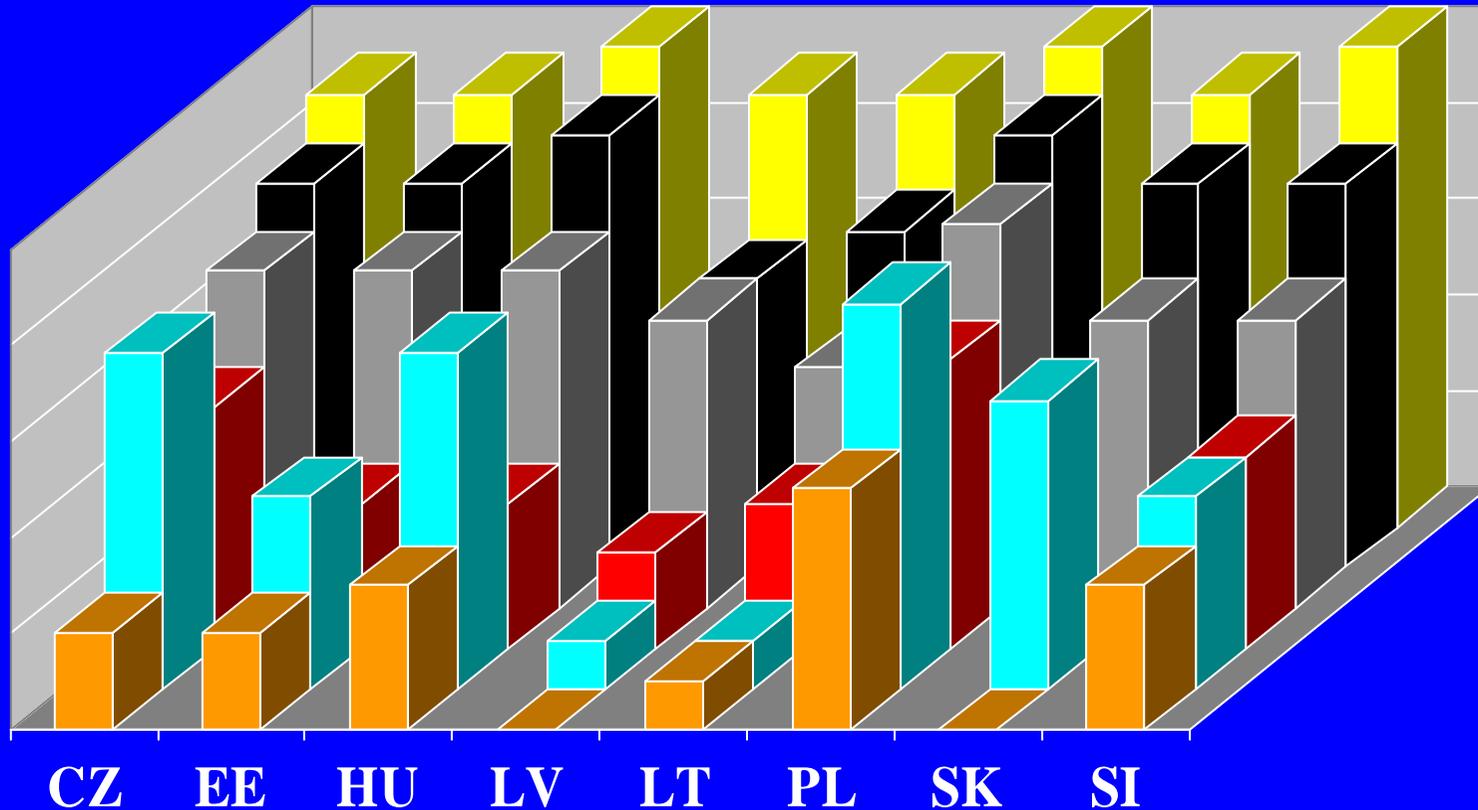
Primary Criteria for Portfolio Investment Decisions in Central and Eastern Europe

ZEW study, October 1999

General	Microeconomic – Company Specific	Financial Markets
Legal Stability –83%	Management –93%	Liquidity –97%
Financial Stability –81%	Productivity – 83%	Enforcement –83%
Political Stability –78%	Sector Growth – 83%	Capital Controls –78%

PFS Program Survey – July 2002

Websites of the 10 Largest Listed Companies in Eight CEE Countries



- Additional Info on Supervisory Board
- Supervisory Board
- Additional Info on Management Board
- Board of Managers
- English
- Websites

PFS Program Survey – July 2002

Websites of the 10 Largest Listed Companies in Eight CEE Countries

Survey conducted of the 10 largest listed companies (by market capitalization) in eight CEE countries

Overall Results:

Most informative websites of HU, PL and SI companies, where site existence was 100%, and of HU and PL companies, where English-language information was 90%.

In other countries, only 9 of the 10 largest companies had a website. Availability of information in English and specific information on management and the board varied widely.

This is the third such study conducted, following similar studies in February 2002 and May 2001.

Survey of Online Investor Relations of Companies Listed on the Warsaw Stock Exchange

Information	% of all WSE companies showing information online
Company profile	88%
Company history	79%
Management names	61%
Supervisory board names	41%
Ownership structure	37%
Strategy statement	29%
Management team bios	23%

Source: Digital Strategies Group (www.dsgterra.com), Summer 2001.

What is past ...

“Overextended Chieftans?”

**Bosses who sit on more than two or three boards
(as recommended by the
National Association of Corporate Directors)”**

<u>EXECUTIVE</u>	<u>COMPANY</u>	<u>BOARD SEATS</u>	<u>DIRECTORSHIPS</u>
John L. Clenenden	BellSouth	9	Coca-Cola; Kroger;
John G. Medlin, Jr.	Wachovia	8	USAir; RJNabisco
Roberto C. Goizueta	Coca-Cola	7	Eastman Kodak; Ford
Alfred M. Zeien	Gillette	7	Bank of Boston; Polaroid
Hugh L. McColl, Jr.	NationsBank	6	CSX; Sonoco

Business Week, November 25, 1996

... is prologue

“The Champions of Cumulative Mandates

**Among CAC 40 companies, here are five
with the greatest number of mandates”**

<u>EXECUTIVE</u>	<u>COMPANY</u>	<u>BOARD SEATS</u>	<u>DIRECTORSHIPS</u>
Jean-Marie Messier	Vivendi	12	BNP Paris, LVMH
Gerard Mestrallet	Suez	9	Axa, Saint-Gobain
Jean Peyrelevade	Credit Lyonnais	9	AGF; Bouygues; Suez
Michel Bon	France Telecom	8	Airliquide; Bull; Orange
Thierry Breton	Thomson Multimedia	8	Axa; Schneider Electric

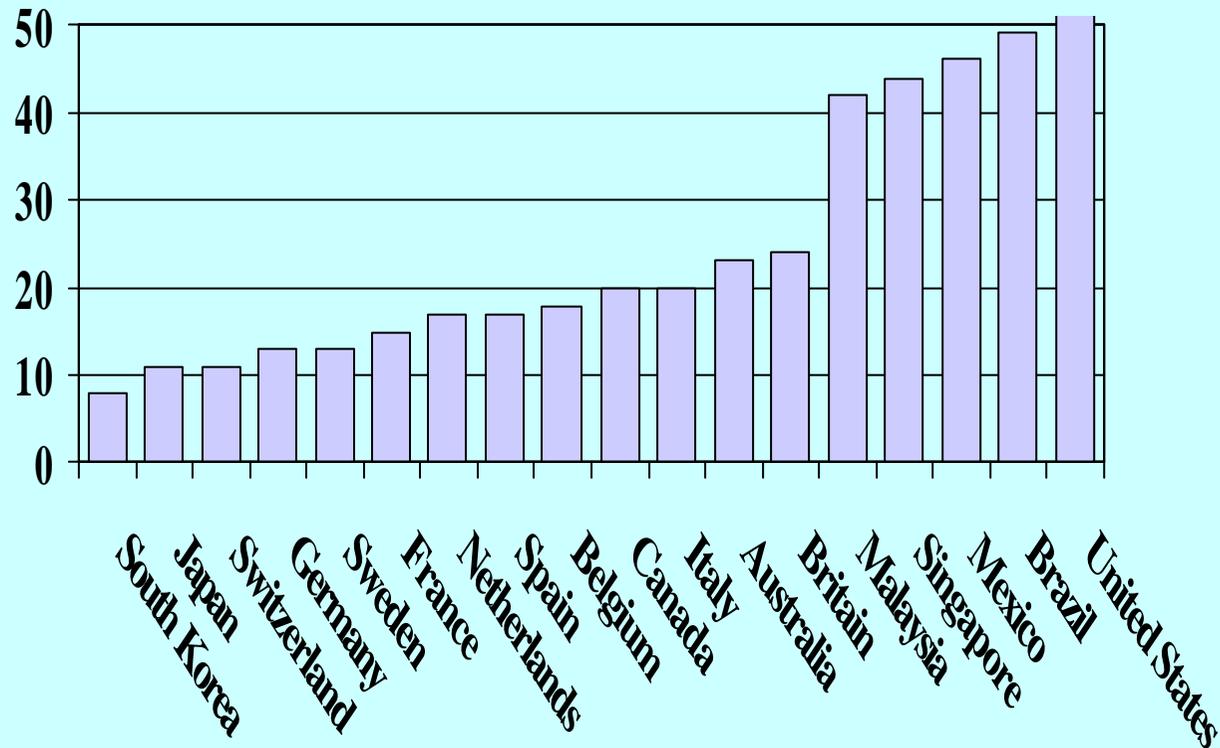
Le Figaro Enterprises, Monday, April 22, 2002

EXECUTIVE PAY Chief executives receive far more pay relative to workers on the factory floor in America than in other countries. A survey of Standards & Poor's 500 leading companies finds that, on average, top American bosses take home 4754 times more than workers. A study conducted by Towers Perrin, an international consultancy, shows that European bosses take only 11 to 24 times as much as their underlings. Several South-East Asian and Latin American countries fall between the extremes. Both reports take into account incentive packages composed of shares and share options. One example is Charles Wang, boss of Computer Associates, he took a mere \$4.6m in salary and bonus in 1999, but added over \$650m in long-term, performance-based compensation.

Chief Executives' Pay

As a multiple of manufacturing employees' pay, 1999

475



Sources: Towers Perrin; Standard & Poor's as reported in the Economist, September 30, 2000

CalPERS Announcement - February 20, 2002

In February 2002, the California Public Employees' Retirement System (CalPERS) – one of the largest public pension funds in the US, announced that it was selling its investments in several Southeast Asian emerging markets and reallocating its portfolio based on specific

C O U N T R Y F A C T O R S (50%)

POLITICAL STABILITY

TRANSPARENCY

PRODUCTIVE LABOR PRACTICES

and

M A R K E T F A C T O R S (50%)

MARKET LIQUIDITY AND VOLATILITY

MARKET REGULATION / LEGAL SYSTEM / INVESTOR PROTECTION

CAPITAL MARKET OPENNESS

SETTLEMENT PROFICIENTY

TRANSACTION COSTS

CalPERS Announcement - February 20, 2002

"We now have in place a blueprint to examine which emerging markets can support institutional investment," said Michael Flaherman, Chair of CalPERS Investment Committee. "It is a screen and an important entry point for investments into our portfolio that will help to protect our pensioners assets in the emerging markets."

Based on its new review process, CalPERS will begin taking a public equity position in Poland and Hungary, while eliminating its public equity investment position in Indonesia, Malaysia, the Philippines and Thailand.

The following are the emerging markets that CalPERS will allow its managers to invest in: Argentina, Brazil, Chile, Czech Republic, Hungary, Israel, Mexico, Peru, Poland, South Africa, South Korea, Taiwan and Turkey.

<http://www.calpers.ca.gov/whatsnew/press/2002/0220a.htm>

Calendars of Disclosure Requirements

The Partners for Financial Stability (PFS) Program, in cooperation with the Hungarian Financial Supervisory Authority, Lithuanian Securities Commission and Polish Securities and Exchange Commission, has drafted Calendars of Disclosure Requirements for Listed Companies.

A meeting was held in Warsaw on November 9, 2001 to discuss the first drafts of the calendars.

The Calendar of Disclosure Requirements for Lithuanian Issuers was presented at an Investor Relations/Disclosure seminar on November 14, 2001 in Vilnius, Lithuania. The Calendar of Disclosure Requirements for Polish Issuers was presented at an Investor Relations seminar on February 27, 2001 in Warsaw, Poland. The Calendar of Disclosure Requirements for Hungarian Issuers was presented at an Investor Relations seminar on May 8, 2002 in Budapest, Hungary.

The calendars can be downloaded from the CAPITAL MARKETS PAGE of the PFS Program website – www.ewmi.hu/capitalmarkets.html

DISCLOSURE OF INFORMATION BY PUBLIC LIMITED COMPANIES IN LITHUANIA

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ANNUALLY: List of Documents	Under which circumstance (s)	Who	To whom	When
Notification on the general meeting of shareholders (must indicate the company's name and address of office, the agenda, date and place) [1]	The ordinary general meeting of shareholders must take place within 4 months after the end of a financial year; The management board supplies the head of administration with necessary information and documents	The head of administration	The shareholders, in a newspaper indicated in the by-laws or delivered to each shareholder personally or by registered letter	Not later than 30 days prior to the general meeting of the shareholders

[\[1\]](#)The Company Law (CL), ART. 28, P.1.

The collapse of Enron raises questions, also in CEE and SEE, about:

ACCOUNTING ISSUES

The differences between US GAAP and IAS

The financing of the FASB and the IASB

The significance of offshore accounts

The significance of Special Purpose Entities (SPEs)

AUDIT ISSUES

Ethics in the audit profession

Conflicts of interest between fees paid for the audit and consulting done for the same client

The collapse of Enron raises questions, also in CEE and SEE, about:

BANKING ISSUES

Investment banks' conflicts of interest

The integrity and timeliness of “independent” credit ratings

BUSINESS ETHICS / BUSINESS CULTURE ISSUES

The limits of the new (dot.com) economy - Enron was a self-proclaimed “virtually integrated company”

The overwhelming pressure to provide **shareholder value**

CORPORATE GOVERNANCE ISSUES

The use of the corporate pension fund as a **management entrenchment tool**

The failure of oversight by “independent” members of the **board of directors**

The lack of **fiduciary responsibility** and/or existence of **conflicts of interest** on the part of **pension fund** shareholders

The collapse of Enron raises questions, also in CEE and SEE, about:

FINANCIAL ISSUES

The reliability of corporate earnings in US and other markets

RISK MANAGEMENT ISSUES

The weighting of a corporate pension fund's investment in the company

PFS Program

Capital Markets Activities - 2001

Comparative Analysis published on the PFS Program website – May 2001

International Accounting Standards (IAS) Symposium – May 31, 2001 - Riga, Latvia

Capital Markets Seminar – June 5, 2001 – Bratislava, Slovak Republic

Investor Relations Seminar – June 19, 2001 – Tallinn, Estonia

IAS Seminar – September 13, 2001 – Tallinn, Estonia

Investor Relations Seminar – October 3, 2001 – Riga, Latvia

Disclosure/Corporate Governance Seminar – October 8-12, 2001 – Budapest, Hungary

Investor Relations Seminar – October 10, 2001 – Budapest, Hungary

Audit Seminar – October 18-19, 2001 – Prague, Czech Republic

IAS Workshop – October 24-25, 2001 - Vilnius, Lithuania

Disclosure Workshop – November 9, 2001 – Warsaw, Poland

Investor Relations / Disclosure Seminar – November 14, 2001 – Vilnius, Lithuania

Investor Relations Seminar – December 5, 2001 – Prague, Czech Republic

PFS Program

Capital Markets Activities - 2002

Investor Relations Seminar – February 27, 2002 – Warsaw, Poland

IAS Seminar – March 6, 2002 – Riga, Latvia

Portfolio Management Workshop – March 21-22, 2002 – Vilnius, Lithuania

Investor Relations Seminar – March 26, 2002 – Bratislava, Slovak Republic

IAS Seminar – April 9-10, 2002 – Prague, Czech Republic

Investor Relations Seminar – May 8, 2002 – Budapest, Hungary

Investor Relations Seminar – May 17, 2002 – Portoroz, Slovenia

IAS Survey published on the PFS Program website – August 30, 2002

Disclosure/Corporate Governance Seminar – Sept. 9-13, 2002 – Vilnius, Lithuania

Investor Relations Conference and Awards – Sept. 17-18, 2002 – Budapest, Hungary

Updated Survey of Online IR in Poland – September 2002 - Poland



THE LEGAL FRAMEWORK FOR CORPORATE GOVERNANCE IN LITHUANIA

12 September 2002

By **Žilvinas Zinkevičius**

LIDEIKA, PETRAUSKAS, VALIŪNAS IR PARTNERIAI

LAW FIRM

LITHUANIAN SYSTEM OF CORPORATE GOVERNANCE: CORRELATION WITH OTHER SYSTEMS OF CORPORATE GOVERNANCE

CHARACTERISTICS:

SYSTEMS

ANGLO-SAXON

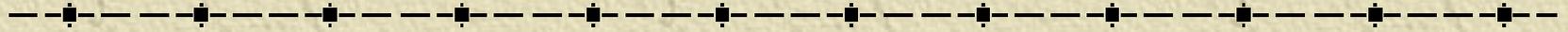
GERMANIC

LATIN

JAPAN

- The prevailing concept of the firm;
- The board system;
- The salient stakeholders able to exert influence on managerial decision-making;
- The ownership structure (concentration);
- The extent to which executive compensation is dependent on corporate performance.

CHARACTER 1: THE PREVAILING CONCEPT OF THE FIRM



OPTIONS:

- Instrumental
 - an instrument for the creation of shareholders wealth (e.g. the USA)
- Institutional
 - a coalition of various participants striving for the continuity of the firm as a whole (e.g. Germany)

CHARACTER 1: THE PREVAILING CONCEPT OF THE FIRM



Anglo-Saxon	Instrumental, shareholder-oriented
Germanic	Institutional
Latin	Institutional
Japan	Institutional

LITHUANIA:
Optional,
institutional orientated

CHARACTER 1: THE PREVAILING CONCEPT OF THE FIRM

LITHUANIA: Optional, institutional orientated

Instrumental concept features

- Generally, the principle “one share, one vote” is applied;
- Right to initiate the audit of the company is granted to every shareholder notwithstanding the amount of shares owned;
- Any shareholder may require through a court to terminate the decision of the managing body which contradicts imperative norms, Articles of Association of the company or principles of prudence or honesty;
- A possibility to demand a compensation for losses incurred on shareholders by resolutions of General Meeting of Shareholders, decisions or actions of Supervisory Board, Management Board or Head of Administration;
- Minority shareholders are legally protected from exploitation by dominant shareholders.

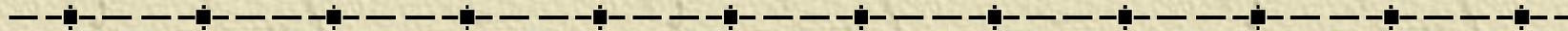
CHARACTER 1: THE PREVAILING CONCEPT OF THE FIRM

LITHUANIA: Optional, institutional orientated

Institutional concept features

- Members of managing bodies must be loyal to the company, but not to its shareholders;
- Only some companies declares an objective to seek for benefit of shareholders in Articles of Association;
- Managerial decision-making is influenced by other stakeholders (creditors, suppliers);
- Shareholder is liable for obligations of a legal person if they appear due to his dishonest actions;
- Access to company information is limited;
- Social-orientated labor law in Lithuania;
- Integration of Lithuania into the EU would promote institutionalization of the concept of the company.

CHARACTER 2: THE BOARD SYSTEM



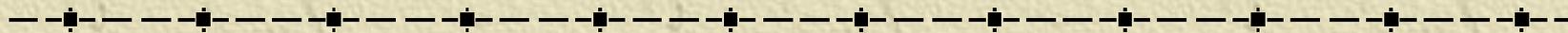
Anglo-Saxon	One-tier (executive and non-executive board)
Germanic	Two-tier (executive and supervisory board)
Latin	Optional (France), in general one-tier
Japan	Board of directors; office of representative directors; office of auditors, de facto one-tier

LITHUANIA:

**Optional,
in general one - tier**

CHARACTER 2: THE BOARD SYSTEM

LITHUANIA: Optional, in general one-tier



- In public companies - optional between one-tier and two-tier board;
- No legal distinction between executive and non-executive directors (like Latin);
- In public companies most of directors are non-executives and non-independent *de facto* being representatives of major shareholders (like Latin);
- Supervisory Board (or Management Board if Supervisory Board is not formed) is elected by a cumulative voting and may be revoked by a simple majority of shareholders' votes;

CHARACTER 2: THE BOARD SYSTEM

LITHUANIA: Optional, in general one-tier



- Supervisory Board elects and dismisses a Management Board by a simple majority of votes (like Germanic); the Management Board must resign when the General Meeting of Shareholders does not approve its report on the company's activities;
- Supervisory Board has a legal duty to monitor operation of the Management Board and advises on major policy decisions (like Germanic);
- Division of functions, rights and responsibilities; if the Supervisory Board is not formed its functions shall not be transferred to other managing bodies;
- Restriction for General Meeting of Shareholders to interfere.

CHARACTER 3: THE SALIENT STAKEHOLDERS ABLE TO EXERT INFLUENCE ON MANAGERIAL DECISION-MAKING



Anglo-saxon	Shareholders
Germanic	Industrial banks (Germany), employees
Latin	Financial holdings, the government, families
Japan	City banks, other financial institutions, employees

LITHUANIA:

Stakeholders

CHARACTER 3: THE SALIENT STAKEHOLDERS ABLE TO EXERT INFLUENCE ON MANAGERIAL DECISION-MAKING

LITHUANIA: Stakeholders

SHAREHOLDERS:

- “One share, one vote” principle respected: no multiple voting or voting restrictions permitted; preference shares with no voting right allowed up to 1/3 of the share capital, but rare;
- Exclusive competence for special questions (e.g. new emission);
- Form the entire Supervisory Board or the Management Board (if the Supervisory Board is not formed);
- May recall the Supervisory Board or the Management Board if the said were formed by shareholders.

CHARACTER 3: THE SALIENT STAKEHOLDERS ABLE TO EXERT INFLUENCE ON MANAGERIAL DECISION-MAKING

LITHUANIA: Stakeholders



OTHER STAKEHOLDERS:

1. Managers
 - Influence in companies without major shareholders;
2. Employees
 - Not institutionalised (unlike Germanic);
3. Creditors/suppliers/
customers
 - Due to limited market frequently one larger customer/ supplier may influence companies policies;
 - According to the law company's future activities (investments, reorganization, money lending, etc.) must be consistent with creditor's interests;

CHARACTER 3: THE SALIENT STAKEHOLDERS ABLE TO EXERT INFLUENCE ON MANAGERIAL DECISION-MAKING

LITHUANIA: Stakeholders



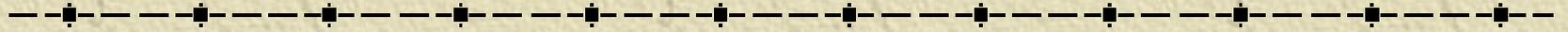
OTHER STAKEHOLDERS:

4. Banks
 - Participation in non - financial institutions limited by the laws;
 - May influence while granting loans;

5. Government
 - Significant influence while acting as a shareholder and legislative body;

6. Corporate groups
 - The significant raise in concentration of the market stipulates the formation and development of various corporate groups, as well as their importance for corporate governance;
 - Legalised lobbying - may increase dominance in the future.

CHARACTER 4: THE OWNERSHIP STRUCTURE (CONCENTRATION)



Anglo-Saxon	Low
Germanic	Moderate/high
Latin	High
Japan	Low/ Moderate

LITHUANIA:

High

CHARACTER 4: THE OWNERSHIP STRUCTURE (CONCENTRATION)

LITHUANIA: High

CONCENTRATION OF OWNERSHIP

- Generally, nearly 70 % of the outstanding shares in public companies are held by the largest three-five shareholders;
- Cross-shareholding.

IDENTITY OF SHAREHOLDERS

- National and foreign natural and legal persons;
- Government, mainly in strategic companies;
- Banks do not hold large blocks of shares.

CHARACTER 4: THE OWNERSHIP STRUCTURE (CONCENTRATION)

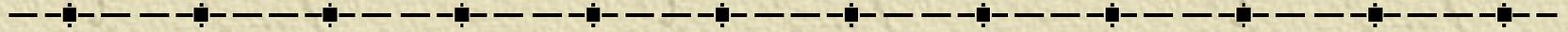
LITHUANIA: High

STATISTICS

- In 2000 two three largest shareholders in the companies held on average more than 60 per cent of shares. In 2001 this figure had grown;
- There were about 68 per cent notices on the acquiring of shares and about 32 per cent – on the loss during the year 2001;
- 29 per cent of notices on the acquiring of shares have been presented by persons acquiring more than 50 per cent share blocks;
- More than 70 per cent of notices about the loss of blocks of shares have been presented by persons who owned 10 - 25 per cent shares blocks.

*Data is provided according to the
Annual Report of the Securities Commission 2001*

CHARACTER 5: THE EXTENT TO WHICH EXECUTIVE COMPENSATION IS DEPENDENT ON CORPORATE PERFORMANCE



Anglo-Saxon	High
Germanic	Low
Latin	Moderate
Japan	Low

LITHUANIA:

Moderate

CHARACTER 5: THE EXTENT TO WHICH EXECUTIVE COMPENSATION IS DEPENDENT ON CORPORATE PERFORMANCE

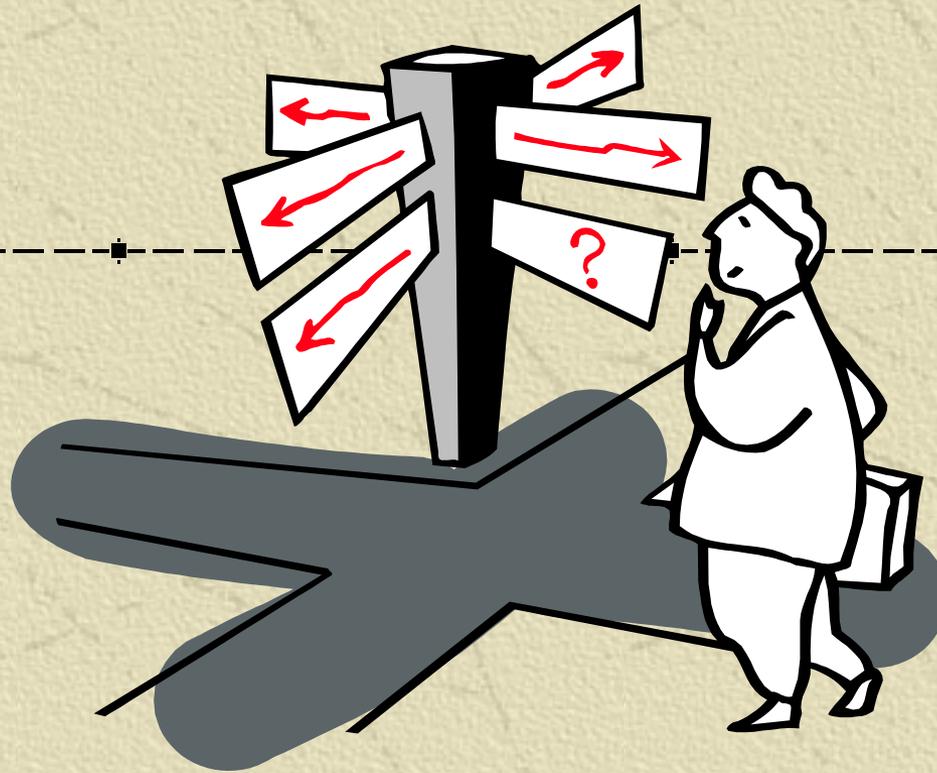
LITHUANIA: Moderate

- Performance related executive compensation is not very common (like Germanic, Latin, Japan);
- However, members of the managing bodies may receive the annual payments (bonuses) from the net profit, *i.e.* only if the company operates successfully;
- Stock options plans are not used;
- Executives in the foreign capital companies are subject to executive compensation more frequently than executives in the Lithuanian capital companies.

CORRELATION WITH MAJOR SYSTEMS OF CORPORATE GOVERNANCE



	Anglo-saxon	Germanic	Japan	Latin	Lithuania
Concept of firm	Instrumental	Institutional	Institutional	Institutional	<i>Optional, institutional orientated</i>
Board system	1-tier	2-tier	3-tier	Optional	<i>Optional, in general 1-tier</i>
Salient stakeholders	Shareholders	Banks/ employees	Banks/ employees	Financial holdings; government, families	<i>Stakeholders</i>
Ownership concentration	Low	Moderate/ high	Low/ moderate	High	<i>High</i>
Executive-compensation	High	Low	Low	Moderate	<i>Moderate</i>



Should Lithuanian corporate
governance system become alike
other four systems?

National Stock Exchange of Lithuania:

1. Market Preconditions and Infrastructure

2. Legal Framework and Regulations of the NSEL

3. Market Data

4. NSEL International Co-operation

**2002 NIS/CEE ISSUER DISCLOSURE AND CORPORATE GOVERNANCE
TRAINING PROGRAM SPONSORED BY LSC, EWMI, SEC and USAID
Vilnius, September 9-13 2002**



**National
Stock
Exchange
of
Lithuania**

MARKET PRECONDITIONS

MASS PRIVATISATION (1991-1995)

PRIVATISATION FOR VOUCHERS

RESULTS:

- ❑ **2923** LARGE AND MEDIUM ENTERPRISES PRIVATISED THROUGH IPOs
- ❑ **1.5** MILLION LITHUANIAN CITIZENS BECAME SHAREHOLDERS

PRIVATISATION SINCE 1996

PRIVATISATION FOR CASH (IN PROGRESS)

- ❑ PRIVATISATION OF MAJOR STRATEGIC ENTERPRISES
- ❑ FURTHER PRIVATISATION OF MEDIUM AND SMALL ENTERPRISES
- ❑ SALE OF THE STATE RESIDUAL SHARE HOLDINGS

RESULTS:

1997-1999 **1059** OBJECTS FOR **854.0** MILL EUR

AT THE EXCHANGE – **75** PUBLIC COMPANIES FOR **21.3** m EUR

2000-2001 **1103** OBJECTS FOR **272.8** MILL EUR

AT THE EXCHANGE – **42** PUBLIC COMPANIES FOR **6.3** m EUR



**National
Stock
Exchange
of
Lithuania**

MARKET INFRASTRUCTURE

LITHUANIAN SECURITIES COMMISSION

- ❑ ESTABLISHED IN 1992
- ❑ APPOINTED AND REPORTING TO THE PARLIAMENT
- ❑ IN CHARGE OF SECURITIES REGISTRATION, LICENSING AND SUPERVISION OF BROKERS, BROKERAGE COMPANIES, STOCK EXCHANGES, INVESTMENT FUNDS AND HOLDING COMPANIES

CENTRAL SECURITIES DEPOSITORY OF LITHUANIA

- ❑ ESTABLISHED IN 1993 (since April 1994 an independent entity, since 1998 public company)
- ❑ 92% STATE OWNED (MAIN SHAREHOLDER – BANK OF LITHUANIA, 60%)
- ❑ IN CHARGE OF SECURITIES ACCOUNTING, SERVICING AND SUPERVISION OF BOOK-KEEPERS

BROKERAGE COMPANIES AND BANKS (MEMBERS OF THE NSEL)

- ❑ 9 BROKERAGE DEPARTMENTS OF BANKS
- ❑ 3 CATEGORY A BROKERAGE COMPANIES (min. own capital EUR 730TH)
- ❑ 11 CATEGORY B BROKERAGE COMPANIES (min. own capital EUR 125TH)

STOCK EXCHANGE (FIRST TRADING SESSION – SEPTEMBER 14 1993)



**National
Stock
Exchange
of
Lithuania**

NATIONAL STOCK EXCHANGE OF LITHUANIA

ESTABLISHED IN 1992, FIRST TRADING SESSION - SEPT 14 1993

MAJOR SHAREHOLDERS:

- MINISTRY OF FINANCE 44.3 %
- BROKERAGE COMPANIES 14.6 %

SINCE JUNE 1998 - PUBLIC COMPANY

AUTHORISED CAPITAL – m EURO 1.07 (May 2001)

AUDITOR – KPMG LIETUVA (1997-2001), Deloitte & Touche (2002-2003)

MEMBERSHIP:

- CORRESPONDENT MEMBER OF WORLD FEDERATION of EXCHANGES SINCE AUGUST 1998
- CORRESPONDENT EXCHANGE STATUS WITHIN FESE SINCE 2000
- MEMBER OF FISD SINCE 2001

MAJOR DEVELOPMENTS:

- NEW TRADING SYSTEM TLAPS (1999-2001)
- WEB NEWS SYSTEM (2000)
- MARKET DATAFEED (2001)



**National
Stock
Exchange
of
Lithuania**

LEGAL FRAMEWORK

**New Securities Market Law
passed in 2001, came into
force on April 1, 2002,
regulating:**

Issuers

Disclosure of Information

Insider Dealing

Takeover Bids

Lithuanian Securities

Commission

Stock Exchanges

Central Depository

Market Intermediaries

Remote membership

**Law on Investment Companies
(passed 1998)**

Mutual Funds

Holding Companies

**Law on Pension Funds
(passed 1999)**

Pension Programs

Pension Funds

New Company Law

in power from July 1 2001



**National
Stock
Exchange
of
Lithuania**

LEGAL ACTS OF THE NSEL

Trading Rules:

Last amendment – April 2002

Fully compliant with EC
Directive 2001/34/EC

Regulate:

- listing,
- membership,
- trading,
- market supervision,
- information disclosure,
- fees.

Rules on Formation and Use of the Guarantee Fund

Rules on Settlement of Transactions:

CSDL in charge of clearing and
settlement under the agreement
with the NSEL

Rules on Public Sale of Shares:

- privatisation,
- public sale of blocks of shares

Rules on Execution of Tender Offer:

How mandatory and voluntary
tender offers are executed
through the NSEL – submitted,
announced, sellers' offers
collected, executed, information
disclosed



**National
Stock
Exchange
of
Lithuania**

LISTING REGULATIONS

**BASED ON THE EUROPEAN UNION DIRECTIVES AND THE
LITHUANIAN SECURITIES LAW**

THREE - TIER MARKET (August 2002)

- OFFICIAL LIST - 7 COMPANIES
- CURRENT LIST - 39 COMPANIES
- UNLISTED SECURITIES - OVER 760 COMPANIES

➤ INFORMATION DISCLOSURE IS THE MAIN PREREQUISITE
FOR THE STOCK EXCHANGE LISTING



**National
Stock
Exchange
of
Lithuania**

LISTING REGULATIONS

OFFICIAL LIST

- MIN MARKET CAPITALISATION OF THE ISSUE IS LTL 10 MILL (2.9 m EUR)**
- NOT LESS THAN 25% OF THE ISSUE MUST BE IN THE HANDS OF PUBLIC (CAN BE LESS FOR BIG COMPANIES)**
- THE ISSUER'S ANNUAL ACCOUNTS ARE PREPARED IN ACCORDANCE WITH IAS AND AUDITED ACCORDING TO INTERNATIONAL AUDITING STANDARDS (for three years)**
- PROSPECTUSES AND LISTING PARTICULARS**
- ANNUAL, SEMI-ANNUAL AND QUARTERLY REPORTS**
- IMMEDIATE DISCLOSURE OF MATERIAL EVENTS TO THE STOCK EXCHANGE**



**National
Stock
Exchange
of
Lithuania**

TRADING IN SECURITIES

CENTRAL MARKET

	Shares and Subscription Rights		Debt Securities	
	with price variation limits	without price variation limits	coupon	zero coupon
till 9.25-9.30 a.m.	Placement of Orders			
9.25-9.30 a.m.	Open Auction			
	Market Price			
	not fixed	fixed	fixed	not fixed
9.55 a.m.	Announcement of the Opening Prices			
10 a.m. – 2 p.m.	Continuous Trading		Continuous Trading	

BLOCK TRADING

ALL SECURITIES:

- PUBLIC BULLETIN BOARD, AGREED COUNTERPART
- REPORTING OF TRADES (9.00 AM - 2.00 PM)

SPECIAL PROCEDURES

EXECUTION OF TENDER OFFERS, PRIVATISATION, SELLING BLOCKS OF SHARES AT AUCTIONS



**National
Stock
Exchange
of
Lithuania**

CLEARING AND SETTLEMENT

CSDL IS IN CHARGE OF CLEARING AND SETTLEMENT FROM MAY 1 2000

LITHUANIAN BANK CLEARING CENTER ACTS AS A CLEARING BANK

DEMATERIALIZED SECURITIES, DVP

GUARANTEE FUND COVERS CENTRAL MARKET OPERATIONS

CENTRAL MARKET:

- SHARES, RIGHTS AND CORPORATE BONDS - T+3
- GOVERNMENT BONDS AND T-BILLS - T+1

BLOCK TRADING: STANDARD - BETWEEN T+1 AND T+5

SETTLEMENT THROUGH LOCAL AND FOREIGN (IF MEMBERS OF CSDL) CUSTODIANS



**National
Stock
Exchange
of
Lithuania**

MEMBERSHIP

BROKERAGE COMPANIES AND BANKS (MEMBERS OF THE NSEL)

- 9 BROKERAGE DEPARTMENTS OF BANKS
- 3 CATEGORY **A** BROKERAGE COMPANIES (min. own capital EUR 730TH)
- 11 CATEGORY **B** BROKERAGE COMPANIES (min. own capital EUR 125TH)

MEMBERSHIP REQUIREMENTS

- BECOME A SHAREHOLDER OF THE NSEL
- HOLD A VALID LICENCE FROM THE SECURITIES COMMISSION TO ENGAGE IN PUBLIC INTERMEDIARY ACTIVITIES FOR BROKERAGE FIRMS OR A LICENCE WITHOUT RESTRICTIONS ON SECURITIES MARKET OPERATIONS FOR BANKS
- BECOME A DIRECT PARTICIPANT OF THE CENTRAL SECURITIES DEPOSITORY
- OPEN CLEARING ACCOUNTS WITH THE CLEARING BANK
- JOIN THE GUARANTEE FUND AND PAY CONTRIBUTIONS
- PAY AN ANNUAL FEE FOR THE RIGHT TO TRADE ON THE NSEL
- ACQUIRE REQUIRED HARDWARE, SOFTWARE AND OTHER TECHNICAL MEANS



**National
Stock
Exchange
of
Lithuania**

MEMBERSHIP

Violations of the NSEL Trading Rules and other regulations may attract **disciplinary sanctions** upon the Stock Exchange member:

- warning (imposed by the Management Board)
- pecuniary penalty (imposed by the Management Board)
- suspension of the right to trade on the Stock Exchange (imposed by the Management Board)
- expulsion from the Stock Exchange members (imposed by the Supervisory Board)



**National
Stock
Exchange
of
Lithuania**

MARKET SUPERVISION

Routine surveillance

- surveillance of daily trading activities, unusual patterns of trading, securities price fluctuations (insider dealing, price manipulation, other market abuse), timely reporting of block trades, etc.
- carried out by the Trading and Settlement Department

Periodical surveillance

- member's compliance with the NSEL rules and regulations
- carried out by the Trading and Settlement Department of the NSEL in co-operation with the LSC and CSDL

Cause inspection

- addressing a complaint, written notice, etc. to investigate alleged violation
- carried out by the Legal Division and other departments of the NSEL



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MARKET INFORMATION

MARKET DATA VENDORS

Local information vendors:

- Brokerage Firm FINASTA
- Brokerage Firm JUSU TARPININKAS
- OMNITEL (mobile telecommunications)

International information vendors:

- REUTERS
- TELEKURS
- MONEYLENE TELERATE
- THOMSON FINANCIAL
- BLOOMBERG
- FT INTERACTIVE DATA
- EUROMONEY POLSKA

DATA DISSEMINATION CHANNELS

Market Datafeed – proprietary electronic system for distributing data to information vendors

Web News System – an electronic link between listed companies and NSEL

Internet – real time trading data on www.nse.lt and www.omni.lt

Mobile technologies – dissemination of market data via SMS

Publications – bilingual weekly and quarterly bulletins, annual reports, in English Baltic Stock Exchanges Monthly and Guide to Listed Companies in electronic and printed format



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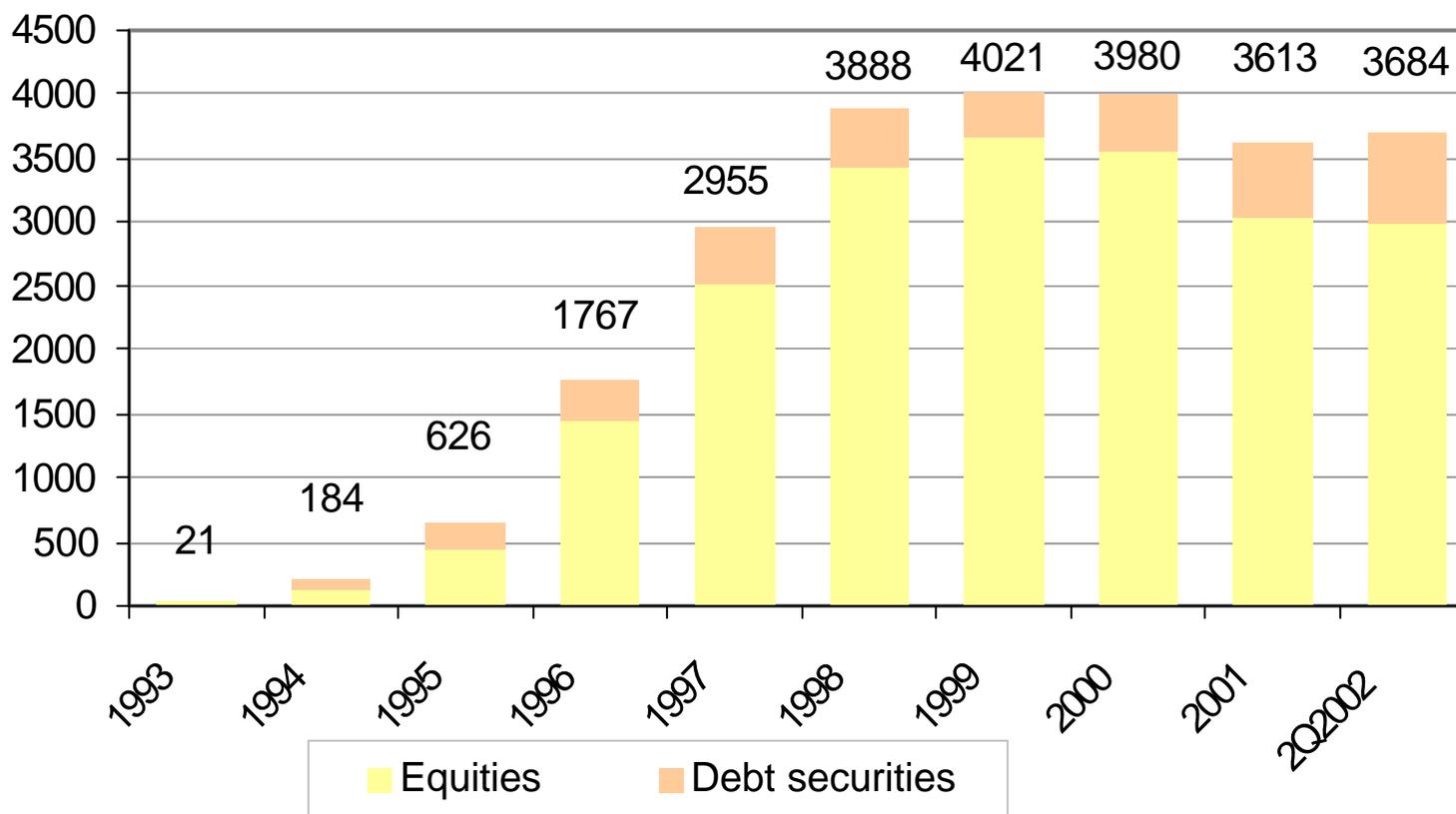
MAIN NSEL FIGURES 2001 - 2002

Total capitalisation (m EUR, end 2001)	3613
<input type="checkbox"/> Market value of shares	3043
➤ Official List	474
➤ Current List	915
➤ Unlisted securities	1654
<input type="checkbox"/> Market value of bonds and T-bills	570
Total market value as % of GDP	26.0%
GDP (m EUR, end 2001)	13892
Foreign ownership (share, end 2001)	46.4%
Total turnover of securities (m EUR, 1H 2002)	241
Total turnover of securities (m EUR, 2001)	533
<input type="checkbox"/> Turnover of shares	243
<input type="checkbox"/> Turnover of debt securities	290
Average daily turnover (m EUR, 2001)	2.11
Number of listed companies (1H 2002)	46
<input type="checkbox"/> Official List	7
<input type="checkbox"/> Current List	39



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TOTAL CAPITALISATION OF THE NSEL (mill EUR)



DIVERSIFICATION OF LISTED COMPANIES



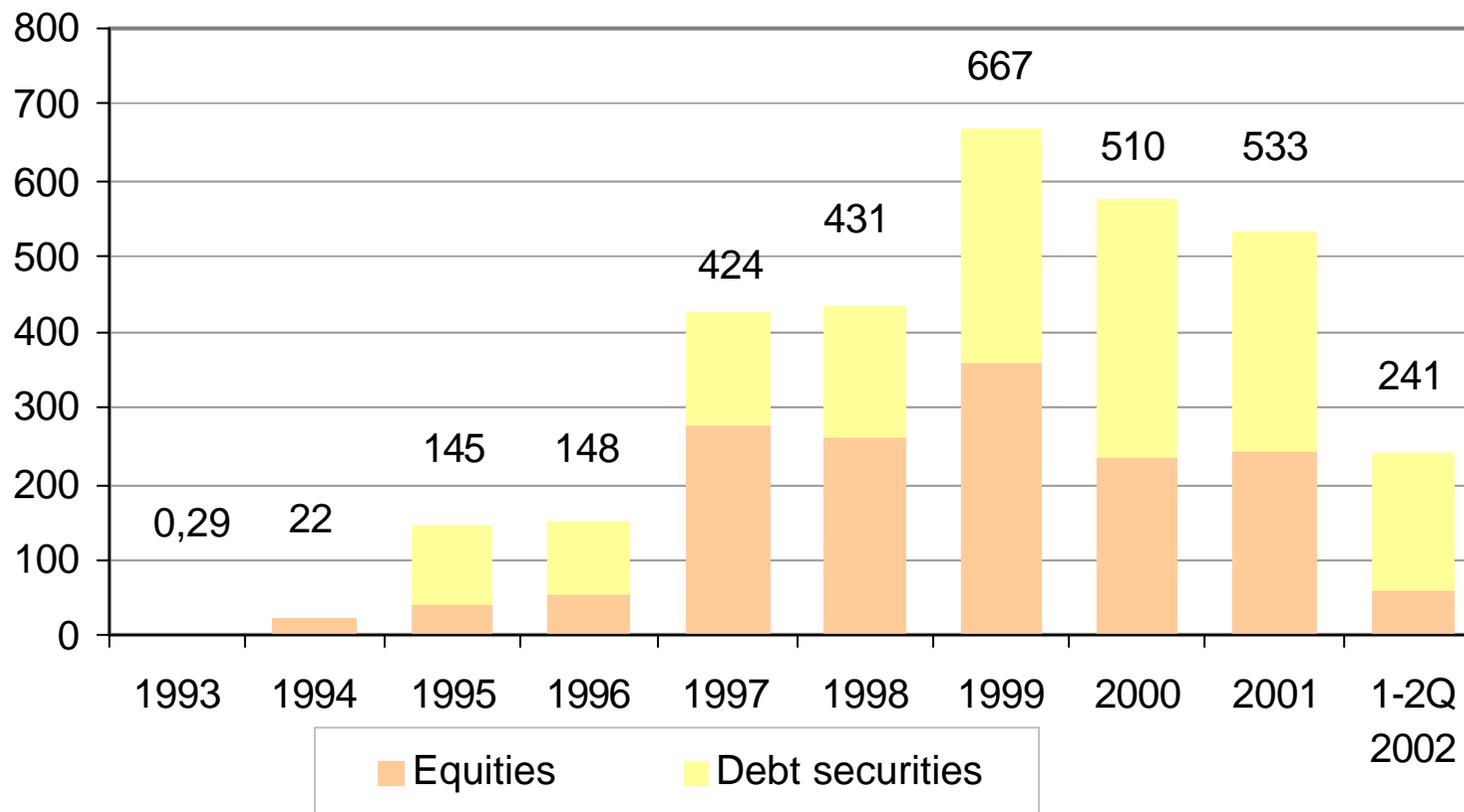
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LISTED COMPANIES BY ECONOMIC ACTIVITIES	% by turnover	% by market cap
Manufacturing	48,08	31,76
Construction	0,02	0,11
Electricity and gas supply	3,88	28,89
Transport and communication	34,30	28,66
Wholesale and retail trade	0,02	0,19
Financial intermediation	13,70	10,38



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TOTAL TURNOVER OF THE NSEL (mill EUR)

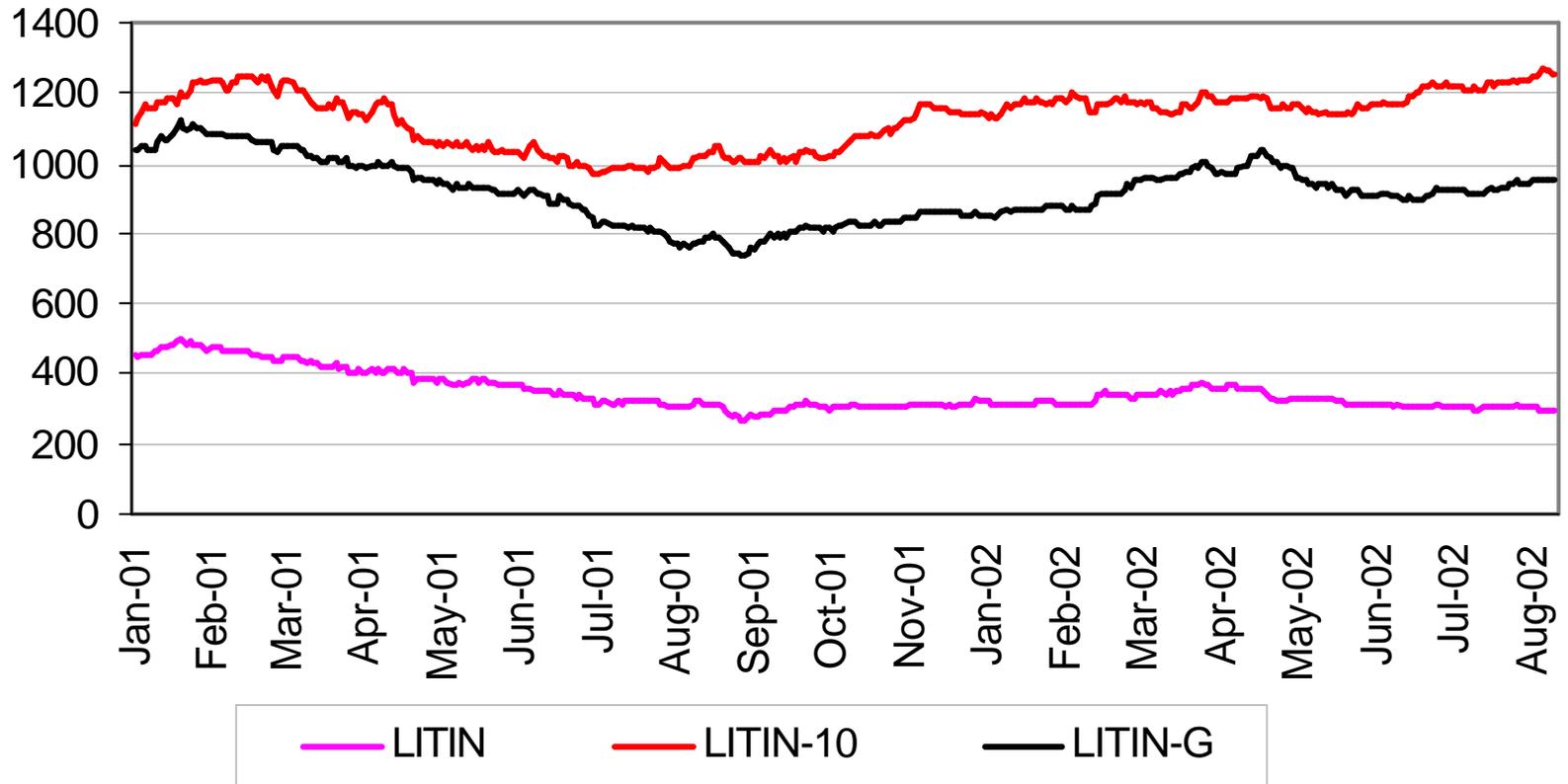




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NSEL INDICES IN 2001-2002

	2002
MAIN: LITIN - OFFICIAL LIST SHARES	- 7.15%
LITIN 10 - TEN MOST LIQUID SHARES (6 OL, 4 CL)	+ 10.44%
OTHER: LITIN-G - ALL LISTED SHARES	+ 11.29%





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INTERNATIONAL CO-OPERATION (1999 - 2001)

MEMORANDUM OF UNDERSTANDING WITH THE RIGA AND TALLINN STOCK EXCHANGES (1999 April)

- REAL TIME INFORMATION ON TRADING IN VILNIUS, RIGA AND TALLINN ON ALL WEB SITES
- BALTIC STOCK EXCHANGES MONTHLY STATISTICS
- BALTIC LIST
- BALTIC WEB SITE WWW.BALTIC-EXCHANGES.COM
- COMMON MARKETING INITIATIVES

NEGOTIATIONS WITH NOREX ALLIANCE (NOVEMBER 1999 – MAY 2001) - PUT ON HOLD

NEGOTIATIONS WITH THE WARSAW SE

- MEMORANDUM OF CO-OPERATION
- FEASIBILITY STUDY ON TECHNICAL CO-OPERATION

NEGOTIATIONS WITH HEX