APPROVED
by Order No. VAS-15 of 18 December 2006 of the Director of the Public Establishment the Institute of Accounting of the Republic of Lithuania

37 BUSINESS ACCOUNTING STANDARD “INVESTMENTS IN JOINT VENTURES”

Version effective as from 22 December 2006 (“Valstybės žinios” (Official Gazette), 2006, No. 139-5337).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how investments in joint ventures shall be recorded in accounting and presented in financial statements.

2. This Standard shall be applied both by venturers and investors in accounting for interests in jointly controlled entities, jointly controlled assets and jointly controlled operations and in presenting them in separate and consolidated financial statements.

3. This Standard shall not apply to:

3.1. Held for sale investments in jointly controlled entities, the accounting whereof is established by provisions of 18 Business Accounting Standard “Financial Assets and Financial Liabilities”.

3.2. Investments when control is exercised by one of the investors irrespective of the existing agreement on joint activities (partnership). The controlling investor shall treat such investment as an investment in a subsidiary and account for it in accordance with the provisions of 16 Business Accounting Standard “Consolidated Financial Statements and Investments in Subsidiaries”, whereas other investors shall account for their investments on the basis of provisions of 15 Business Accounting Standard “Investments in Associates” or 18 Business Accounting Standard “Financial Assets and Financial Liabilities”.

II. KEY DEFINITIONS

Jointly controlled operations – economic activities carried out by two or more natural or legal persons on the basis of an agreement on joint activities (partnership)**.**

Jointly controlled assets – assets managed, used and (or) disposed by two or more natural or legal persons on the basis of an agreement on joint activities (partnership).

Joint control – control over economic activities documented in the form of an agreement on joint activities (partnership), which exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of all venturers sharing control.

Investor in a jointly controlled entity – an investor who has acquired an interest in a jointly controlled entity, but who is not a party to the agreement on joint activities (partnership) regarding the joint control of such entity.

Joint venture – an arrangement of two or more parties documented in the form of an agreement on joint activities (partnership) to undertake economic activities that are subject to joint control.

Consolidated financial statements – financial statements of a group of entities prepared and presented as those of a single entity.

Control – an entity’s power to have a significant influence over another entity, to govern the financial and operating policies thereof so as to obtain benefits from its activities. The control may be either direct or indirect.

Equity method – a method of accounting whereby the investment in shares is initially recorded at the cost of the shares and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The income statement of the investor reflects the investor's share of the net profit (loss) of the investee.

Jointly controlled entity – an entity subject to joint control of two or more natural or legal persons. Joint control shall be documented in the contractual form so as to prevent either of the controlling parties from individually taking ultimate decisions.

Venturer – an investor who has entered into an agreement on joint control over a joint venture with other parties of the agreement on joint activities (partnership).

Significant influence – the power to participate in the financial and operating policy decisions of an entity without controlling the entity. Usually significant influence occurs when an entity holds shares in another entity entitling it to at least 20 per cent of the voting rights in the general meeting of shareholders.

III. JOINT VENTURE

4. Joint ventures by their nature may take different forms. Joint ventures dealt with in this Standard can be described as arrangements regarding:

4.1. jointly controlled operations;

4.2. jointly controlled assets;

4.3. jointly controlled entities.

5. All agreements on joint activities (partnership) have the same common characteristics:

5.1. they are concluded between two or more venturers;

5.2. agreements include an arrangement on joint control over the joint venture.

6. The contractual arrangement on joint control may be evidenced in several ways. For the purpose of accounting for investments in joint ventures and presenting them in financial statements, the substance and economic content of an agreement shall be taken into account in addition to its form.

7. Joint control may be precluded when the joint venture is reorganised or goes bankrupt, or when its ability to transfer funds to the venturer is subject to a severe long-term restriction. Where joint control is continuing, these events are not sufficient in themselves to justify not accounting for investments in joint ventures in accordance with this Standard.

IV. JOINTLY CONTROLLED OPERATIONS

8. Assets and other resources of venturers may be used in economic activities which are jointly controlled under the agreement on joint activities (partnership) without having registered the entity as a legal person. Each venturer uses its own assets, incurs expenses and assumes liabilities. Employees of such venturer may participate in jointly controlled operations alongside the venturer's similar activities. As a rule, the way of sharing sales revenue and incurred expenses between venturers shall be specified in the agreement on joint activities (partnership)**.**

9. In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:

9.1. assets controlled and liabilities assumed by it in relation to jointly controlled operations;

9.2. its portion of liabilities assumed with other venturers in relation to jointly controlled operations;

9.3. its portion of revenue earned from sold goods or services of jointly controlled operations, as well as its portion of any expenses incurred by the joint venture;

9.4. expenses incurred by it in relation to its interest in the joint venture.

10. Because liabilities, assets, income and expenses of the venturer related to jointly controlled operations are recognised in its separate financial statements, no adjustments or other consolidation procedures are required in respect of these items if the venturer prepares consolidated financial statements.

V. JOINTLY CONTROLLED ASSETS

11. Assets dedicated to joint purposes may be subject to joint control under the agreement on joint activities (partnership). Such assets may be owned by any of the venturers or jointly owned by all venturers and they are used to obtain economic benefits from it for venturers. Each venturer may take a share of economic benefits generated by such assets and each bears an agreed share of incurred expenses.

12. In its financial statements a venturer shall present:

12.1. its interest in jointly controlled assets, classified according to the nature of the assets;

12.2. liabilities assumed by it in relation to jointly controlled assets;

12.3. its portion of liabilities assumed with other venturers in relation to jointly controlled assets;

12.4. any income earned from selling or using its portion of output produced by jointly controlled assets, as well as its portion of any expenses incurred by the joint venture;

12.5. expenses incurred by other venturers with regard to its interest in the joint venture.

13. Because liabilities, assets, income and expenses of the venturer related to jointly controlled assets are recognised in its separate financial statements, no adjustments or other consolidation procedures are required in respect of theses items if the venturer prepares consolidated financial statements.

VI. JOINTLY CONTROLLED ENTITIES

14. An entity may be controlled under the agreements on joint activities (partnership). A jointly controlled entity operates in the same way as other entities, except that the agreement on joint activities (partnership) establishes joint control over economic activities of such entity.

15. A jointly controlled entity is a legal person holding its own assets, assuming liabilities, incurring expenses and earning income.

16. Each venturer is entitled to a share of the results of the jointly controlled entity.

17. The nature of activities of a jointly controlled entity may differ from, or be related to, the activities of venturers.

18. Investment acquired in a jointly controlled entity shall be recognised in accounting at its acquisition cost.

VII. FINANCIAL STATEMENTS OF A VENTURER

19. Investments in a jointly controlled entity shall be presented in financial statements using the equity method, except for cases, when such investments have been acquired for resale or when the jointly controlled entity is subject to significant restrictions.

20. If a venturer prepares consolidated financial statements, in its separate financial statements it shall present investments in jointly controlled entities using either the equity or cost method.

21. For the purpose of accounting for its investments in jointly controlled entities under the equity method, the venturer shall follow the provisions of 15 Business Accounting Standard “Investments in Associates”.

22. Application of the equity method shall commence as from the day on which the investee meets the definition of a jointly controlled entity.

23. The partner shall discontinue applying the equity method as from the day on which the joint control ceases or expires.

24. If an investment in a jointly controlled entity that was previously recorded in accordance with 18 Business Accounting Standard “Financial Assets and Financial Liabilities” is not disposed within twelve months from the acquisition date, such investment shall be recorded in accounting and

presented in financial statements following the requirements of paragraphs 19 or 20 of this Standard. The new method of accounting shall be applied retrospectively.

25. If an investment in a jointly controlled entity was classified as held for sale financial assets and has not been disposed within twelve months from the acquisition date, the venturer shall not be required to change the accounting method of the investment if at the balance sheet date the sale is in progress and there is no reason to doubt its immediate completion after the balance sheet date.

26. If a jointly controlled entity becomes a venturer's subsidiary, from such date the venturer shall account for its investment according to 16 Business Accounting Standard "Consolidated Financial Statements and Investments in Subsidiaries".

VIII. TRANSACTIONS BETWEEN A VENTURER AND A JOINT VENTURE UNDER THE EQUITY METHOD

27. If there are significant transactions between a venturer and a jointly controlled entity, for the purpose of calculating the value of investments under the equity method, the portion of profit or losses attributable to the venturer shall be eliminated.

28. When a venturer's assets are transferred to a jointly controlled entity and at the end of the reporting period such assets are not sold to a third party, the venturer shall recognise only that portion of profit or losses which is attributable to other venturers.

29. A venturer purchasing assets from a jointly controlled entity shall not recognise the portion of profit or losses arising from such transaction until the disposal of such assets to a third party.

IX. FINANCIAL STATEMENTS OF AN INVESTOR IN A JOINTLY CONTROLLED ENTITY

30. An investment in a jointly controlled entity shall be recorded in accounting and presented in financial statements of the investor according to 18 Business Accounting Standard "Financial Assets and Financial Liabilities" or, where such investor has significant influence in such entity, according to 15 Business Accounting Standard "Investments in Associates".

X. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

31. The following disclosures shall be provided in explanatory notes to financial statements:

31.1. the description of joint ventures;

31.2. the name, head office, type of activities, proportion of ownership interest held, net profit (losses) of the reporting period and amount of equity of each jointly controlled entity;

31.3. the accounting method applicable to investments in jointly controlled entities;

31.4. portions of non-current and current assets, non-current amounts payable and liabilities, current amounts payable and liabilities, income and expenses related to joint ventures;

31.5. losses related to a joint venture, if they are recorded in the off balance sheet accounts;

31.6. amounts and nature of contingent liabilities related to investments in joint ventures;

31.7. other significant facts related to joint ventures.

XI. FINAL PROVISIONS

32. This Standard shall be effective for financial statements covering periods beginning on or after 1 January 2007. It may be applied in preparing financial statements for 2006**.**