LIETUVOS ELEKTRINĖ AB

Annual Report and
Financial Statements for the year
ended 31 December 2006

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PUBLIC COMPANY LIETUVOS ELEKTRINĖ

ANNUAL REPORT 2006

The Annual Report of AB Lietuvos elektrinė (hereinafter – Company) was prepared by the Board of the Company in accordance with Article 34 of the Law on Companies of the Republic of Lithuania. The Company's Annual Report is public. Every interested person may have access to it at the Company's registered office at 21 Elektrinės St., Elektrėnai.

During the reporting period the Company's Board comprised the following members:

Pranas Noreika – Chairman of the Board, Director General of the Company;

Vida Dzermeikienė – Head of Electricity and Heat Division of the Energy Department, Ministry of Economy of the Republic of Lithuania;

Domininkas Pečiulis – Head of State Property Privatization and Management Division, Ministry of Economy of the Republic of Lithuania;

Dr. Arvydas Galinis – senior research specialist of the Lithuanian Energy Institute;

Rolandas Jankauskas – Chief Financier of the Company.

During the year, the Board held 12 meetings, at which the Company's financial plans, investment projects and their implementation, quarterly results of economic activities, income and expenditure estimates and a great many of other issues within the competence of the Board were discussed. In this Annual Report the Company's Board presents the Company's shareholders, creditors and all other interested persons a review of the Company's activities in the financial year 2006, highlights of the financial year, the Company's plans and all other relevant information to be disclosed in the Company's Annual Report as prescribed by law.

ACTIVITIES OF THE BOARD IN 2006

March:

- The Board approved the Corporate Action Plan for 2006.
- The Board approved the Investment Plan for 2006.

April:

- The Annual General Meeting (AGM) of the Company's shareholders approved the Annual Report 2005 and the financial statements for the year 2005, including the Balance Sheet, the Income Statement, and the Statement on Changes in Equity. The AGM approved the profit appropriation.

July:

- The new price was approved for the thermal energy produced by the Lithuanian Power Plant at 6.87 ct/kWh.

September:

- Adjustments were made to the Corporate Action Plan for the year 2006.
- The Board approved the relatively fixed costs and the remuneration fund for the year 2007.

October:

- The National Control Commission for Prices and Energy set the purchase price of electricity produced by AB Lietuvos elektrinė, where electricity production is necessary to ensure the energy reserves of the system, for the year 2007 at 19.00 ct/kWh, excluding VAT.

November:

- Mr. Pranas Noreika was elected Chairman of the Board of the public company (AB) Lietuvos elektrinė.

December:

- An agreement for gas supply, transmission and distribution in the year 2007 was signed with AB Lietuvos dujos.

PERFORMANCE INDICATORS

1. The Company's Performance in 2006

In 2006, AB Lietuvos elektrinė supplied 885,062 thousand kWh of busbar energy. Furthermore, AB Lietuvos elektrinė sold thermal energy in the amount of 148,904 Gcal to the town of Elektrėnai and the Kietaviškės greenhouses "Gausa".

Balance of energy and fuel costs

Table 1

Indicators	Unit of measurement	2006	
		Production of electricity	Production of thermal energy
1. Electricity produced in kind	thou kWh	986 245	x
Of it	Gcal	x	169 949
- in gas boiler houses	Gcal	x	3 095
- in electric-boiler houses	Gcal	x	0
2. Power energy used	thou kWh	69 287	1 082
in the production of electricity	%	7.02	x
	kWh/Gcal	x	6.37
3. Additional production	thou kWh	30 814	x
Of it to:	Gcal	x	21 045
3.1. feed the thermal network	thou kWh	633	x
	Gcal	x	8 365
3.2. maintain circulation of the thermal network	thou kWh	3 174	x
3.3. maintain state reserve fuel in stock	thou kWh	1 184	x
	Gcal	x	1 122
3.4. maintain plant reserve fuel in stock	thou kWh	0	x
	Gcal	x	649
3.5. accept for storage fuel from other companies	thou kWh	279	x
	Gcal	x	308
3.6. support other needs of the plant	thou kWh	25 544	x
	Gcal	x	10 601
4. Energy sold	thou kWh/Gcal	885 062	148 904
4.1. from busbar and collectors	thou kWh	885 062	x
Of it :	Gcal	x	145 809
4.1.1. quota electricity	thou kWh	623 322	x
4.1.2. contractual	"	0	x
4.1.3. additional	"	136 712	x
4.1.4. regulating (balance)	"	-1 377	x
4.1.5. balancing (balance)	"	125 341	x
4.1.6. sold from the transformers for the Company's own needs	"	1 064	x
4.2. of it to the Kietaviškės greenhouses	Gcal	x	76 003
4.3. Additionally supplied from boiler houses	"	x	3 095

4.4. Losses in thermal networks	"	x	0
4.5. Thermal energy supplied to consumers:	"	x	148 903
- the town of Elektrėnai	"	x	66 344
- all residents	"	x	0
of it for hot water	"	x	0
- companies and organisations	"	x	6 458
- greenhouses	"	x	76 132
5. Contractual fuel used:	Contractual fuel, t	350 885	25 219

2. Performance in carrying out the Corporate Action Plan for 2006

With prices for natural gas going up and those for electricity down, Lithuanian Power Plant had a total loss of LTL 39,398m in core activities. Furthermore, the power plant failed to receive the expected proceeds for the capacity reserve in the amount of LTL 20m. during the period of repair works in Ignalina Nuclear Power Plant. Having sold tradable permits to CO_2 emissions, however, the Company earned a profit before taxes in the amount of LTL 31.174m. The planned profit was LTL 22.132m.

The Lithuanian Power Plant gained a profit in LTL 70.942m from ancillary activities, mainly, from the sale of tradable permits to CO_2 emissions.

Performance in 2006 compared to planned indicators

Table 2

Item No.	Indicators	Unit of measurement	Planned in 2006	Result
	I. TECHNICAL INDICATORS			
1.	Electricity supplied to:	thou kWh	850 000	885 062
1.1.	AB Lietuvos energija	-“-	190 000	884 039
1.1.1.	Of it under PSO quota	-“-	660 000	516 361
1.2.	Other consumers	-“-	-	1 023
2.	Capacity sold:	MW*h		
2.1.	Warm capacity reserve	-“-	876 000	565 219
2.2.	Cold capacity reserve	-“-	8 698 680	6 538 789
3.	Thermal energy sold	Gcal	140 000	183 358
4.	Fuel costs in production of contractual electricity	g/kWh	398.1	396.5
5.	Fuel costs in production of contractual thermal energy	kg/Gcal	165.7	169.7
	II. REVENUES (total):	LTL thou	**258 394**	**264 628**
1.	Electricity sold	-“-	109 879	119 796
2.	Cold capacity reserve	-“-	53 939	53 939
3.	Warm capacity reserve	-“-	7 972	7 972
4.	Thermal energy	-“-	10 123	9 056
5.	Revenues from ancillary activities	-“-	76 482	73 324
6	Revenues from financial investment activities	-“-	0	542
	III. COSTS (total):	LTL thou	**236 261**	**233 454**
1.	Variable	-“-	139 128	140 352
1.1.	For electricity	-“-	128 936	131 393
1.2.	For thermal energy	-“-	10 192	8 959
2.	Relatively fixed	-“-	97 134	89 808

2.1.	Amortization	-“-	30 890	25 619
2.2.	Wages and salaries	-“-	18 998	18 999
2.3.	Social insurance	-“-	6 080	6 122
2.4.	Taxes	-“-	4 278	2 587
2.5.	Material costs	-“-	36 088	36 482
3.	Other activities	-“-	0	2 382
4	Financial investment activities	-“-	800	912
	IV. PROFIT (total):	LTL thou	**22 132**	**31 174**
1 .	From core activities	-“-	22 132	-39 398
2.	From other activities	-“-	-	70 942
3.	From financial investment activities	-“-	-	-370

3. Prices for electricity and capacity reserves in 2006

Table 3

			Ordered amount	Price
1.	Warm capacity reserve	MW	100 MW	9.10 LTL/MW*h
2.	Cold capacity reserve ordered	-"-	993 MW	8.50 LTL/MW*h
3.	PSO	-"-	660m kWh	13.77 cnt/kWh

STAFF

In 2006, the average number of AB Lietuvos elektrinė employees under the payroll statistical report:

Table 4

	Result	
	2005	2006
Total number of employees	744	706
Of them:		
- employees in core operations	687	666
- employees in ancillary operations	57	40
Staff structure by nature of work:		
- specialists	206	197
- workers	538	509
Average wages and salaries, LTL	2 137	2 592
- specialists	2 638	3 118
- workers	1 939	2 382

ENVIRONMENT PROTECTION

Emissions of the power plant into the atmosphere in 2006

Table 5

Pollutants	Current emissions, tonnes:
Flue gas emissions into the atmosphere:	
SO_2	1,131.481
NO_x	815.049
CO	102.311
Solid particles from crude oil and orimusion	4.556
including V_2O_5	2.335
3. Hydrocarbon vapour, t:	0.276
2.1. Emissions into the atmosphere from small sources, t:	
NO_x	0.023
CO	0.065
Solid particles	0.034
Iron compounds	0.048
Manganese compounds	0.007
Sulphuric anhydride	0.026
Volatile organic compounds	0.016
Sulphuric acid	0.003
Emissions to the river of Strėva:	
BOD7, t	0.805
Sinking substances, t	2.401
Oil substances, kg	0.072

Report on greenhouse gas emissions by the Lithuanian Power Plant in 2006

Table 6

Amounts of greenhouse gas emissions by Annex I activities (EC decision of 29/01/2004)						
Categories	IPCC CRF-Category	IPPC code of EPER Category	Approach used? *Calculation/ Measurement*	Uncertainty (*Measurement approach*)	Tiers changed? *Yes/No*	Emissions, *t/CO2*
1	A. Fuel Combustion Activities 1. Energy industries a. Public Electricity and Heat Production	1.1.	Calculation	–	No	638,523

INVESTMENT

Implementation of the Investment Plan Projects in 2006

1. Modernization of regenerative air heaters in units 5, 6, 7 and 8.

All air heaters in Unit 5 – ROP-5A, 5B, 5C, 5D – were modernized. Sealing improvements of rotary type air pre-heaters ROP-6A and ROP-6B in Unit 6 were completed while upgrading of rotors ROP-6C and ROP-6D was performed by about 80 %.

Modernization of regenerative air pre-heaters in Units 6, 7 and 8 will continue throughout 2007.

2. Upgrading of control systems in Units 5, 7 and 8.

A control system was mounted in Unit 5. Sensors T, P, F, L, Q were replaced and automated security control program launched. Automatic operation of the power plant process during start-up procedures was introduced to allow automatic start-ups at all regimes.

Automatic regulation regime was set for operation at minimum and maximum capacity when firing gas. The following work still remains to be completed: tuning of coordinated unit operation mode (turbine control loads MW – boiler – steam pressure before the turbine), acceptance tests corresponding to the UCPTE standards and the optimization of operation of temperature corrections.

The work on upgrading of control systems in Units 7 and 8 will continue in 2007.

3. Installation of low NOx burners for boilers in Units 1, 2, 5, 6, 7 and 8.

Hot air blowers and low NOx burners as well as anti-explosive safety systems were installed in boilers 5A and 5B in Unit 5. Their tests were carried out firing natural gas. The measuring of the NOx emissions revealed good results.

Reconstruction of boilers 6A and 6B in Unit 6 is going on. The foundation was made for new hot air blowers; a new flue gas recirculation system is under construction. Work on Units 1, 6, 7 and 8 will be carried on throughout the year 2007.

4. Assembly of flue gas desulphurisation plant and FDG absorbers in Unit 7 and Boiler 8A.

The following sections have already been assembled: heating pipelines leading to the industrial area (Pramone) and the greenhouses, a gas pipe, the foundation for electrostatic precipitators (ESP) in 7A and 7B, supporting structures, hoppers, ESP casings, inlet and outlet ducts, inlet and outlet distribution plates, the ESP-8A foundation, supporting structures, hoppers, the foundation for a gypsum storage building and tanks for the limestone silo, limestone pulp, gypsum pulp, the filtrate, the foundation for the neutralization plant.

Collecting and discharge electrodes in ESP-7A and 7B are under erection; work on ESP-8A casing, insulation and cladding is in progress; the foundation for the gypsum sludge dewatering building is also under construction. Repair works on neutralization tanks have been completed and the tanks relocated. Pipelines to the neutralization plant and to the ash pond are being assembled. The building of underground communications is close to completion. Work on detailed design is continued. A bypass road has been built; it will be paved with asphalt. Work in Unit 7 and Boiler 8A will be continued in 2007.

5. Building of a new 2000 m^3 water collection tank.

The building of a 2000 m^3 water collection tank was completed.

6. Renovation of a 1.2 km railway track and roads 101 and 108.
Renovation of a 1. 2 km railway track as well as of Roads 101 and 108 was completed.

Investment absorbtion in 2006

Table 7, LTL thou

No.	Project	Plan for 2006	Implementation in 2006	Source of funding			
				Own funds	Loans	National Ignalina decommissioning fund	International Ignalina decommissioning support fund
1	2	3	4	5	6	7	8
1.1.	Flue gas desulphurisation plants (electrostatic precipitators) in Boiler 8B	2800000	481198	481198			
1.2.	Renovation of the railway runway	721000	680750	680750			
1.3.	Building of a new 2000 m^3 water collection tank	398000	398140	398140			
1.4.	FDG absorbers in Unit 7 and boiler 8A	111559000	66033215			11552778	86747738
1.5.	Installation of burners of low nitrogen oxide output and booster fans	41010000	24419919		20433707	2456527	
1.6.	Upgrading of regenerative air preheaters	20639000	12924754		1847305	5250184	
1.7.	Upgrading of the control system in Units 5, 7 and 8	28695000	8727643		6890753		
1.8.	Project management (quality assurance and eco management)	4485000	2968844		2254262		1484225
1.9.	Refurbishment of the main building	100000					
1.10.	Upgrading of computer and local network equipment	100000					
1.11.	Equipment not requiring installation	1500000	1078206	1078206			
1.12.	Replacement of a turbo supply pump	50000					
1.13.	Preparation of an ash pond for depositing desulpharisation products	400000					
1.14.	Replacement of high pressure preheater valves by more reliable ones	100000					
1.15.	Staff training	2500000					
1.16.	Assembly of new cooling equipment in Units 7 and 8	400000					
1.17.	Replacement of CIS and HIS control valves	300000					
1.18.	Replacement of EMC and TMS recirculation valves	80000					
1.19.	Replacement of direct current panel for Central Accumulator Battery	100000					
	Total:	**215937004**	**117712669**	**2638294**	**31426027**	**19259489**	**88231963**

THE COMPANY'S PLANS FOR THE YEAR 2007

The Company's main plans for the year 2007 are reflected in Tables 8 and 9.

Prices for electricity and capacity reserves in 2007

Table 8

			Price
1.	Warm capacity reserve	100 MW	9.10 LTL/MW*h
2.	Cold capacity reserve ordered	993 MW	8.50 LTL/MW*h
3.	PSO quota planned	700m kWh	19.0 cnt/kWh

The Corporate Action Plan of AB Lietuvos elektrinė for the year 2007 was approved, projecting revenues in the amount of LTL 247,814 thousand, costs in the amount of LTL 225,691 thousand (of them LTL 83,524 thousand of relatively fixed costs, including LTL 21,848 thousand allocated for wages and salaries) and LTL 22,123 thousand in profit.

Main indicators as planned for 2007

Table 9

No.	Indicators	Unit of measurement	Achieved in 2006	Planned for 2007
1.	**Total relatively fixed costs:**	**LTL m**	**89.808**	**83.524**
	Of them:			
1.1.	Material costs:		36.482	23.700
1.1.1.	*Repair works by contracts*	-"-	*14.164*	*8.000*
1.1.2.	*Maintenance costs*	-"-	*15.074*	*12.000*
1.1.3.	*Other material costs*	-"-	*7.244*	*3.700*
1.2.	Depreciation and amortisation	-"-	25.619	27.619
1.3.	Wages and salaries	-"-	18.999	21.848
1.4.	Social insurance	-"-	6.122	6.992
1.5.	Taxes	-"-	2.586	2.565
1.5.1.	*Real estate tax*	-"-	*0.544*	*0.544*
1.5.2.	*Land lease tax*	-"-	*0.756*	*0.756*
1.5.3.	*Environment tax*	-"-	*0.190*	*0.190*
1.5.4.	*Pollution tax*	-"-	*0.967*	*0.967*
1.5.5.	*Payment into the Guarantee Fund*	-"-	*0.044*	*0.044*
1.5.6.	*Other taxes (VAT, Stamp duty)*	-"-	*0.086*	*0.064*
1.6.	Interest	-"-	-	0.800
2.	**Fuel costs**	**-"-**	**140.4**	**142.2**
2.1.	Fuel for production of electricity	-"-	131.4	128.8

2.2.	Fuel for production of thermal energy	-"-	9.0	13.4
3.	**Total costs of core activities**	**-"-**	**230.2**	**225.7**
3.1.	Other operating costs	LTL m	2.4	0.0
3.2.	Costs of financial investment activities	-"-	0.9	0.0
4.	**Total costs**	**-"-**	**233.5**	**225.7**
5.	Cold capacity reserve ordered	MW	**993**	**993**
6.	Warm capacity reserve	-"-	**100**	**100**
7.	Capacity used	-"-	**101.0**	**79.9**
8.	Electricity sold	KWh m	**885.1**	**700.0**
8.1.	Of it under PSO quota	-"-	660.0	700.0
9.	Price for cold capacity reserve and for the capacity used	LTL/MWh	8.50	8.50
10.	Price for warm capacity reserve	-"-	9.10	9.10
11.	Price for electricity	ct/kWh	13.54	19.00
11.1.	Of it under PSO quota	ct/kWh	13.77	19.00
12.	**Revenues from reserves and capacity used**	**LTL m**	**67.5**	**87.9**
12.1.	Of them for: cold capacity reserve	-"-	53.9	73.9
12.2.	Warm capacity reserve	-"-	8.0	8.0
12.3.	Capacity used, collected through payments for electricity	-"-	5.6	6.0
13.	Thermal energy sold	MWh	173175	190732
14.	Price for thermal energy	ct/kWh	5.23	6.87
15.	**Revenues for thermal energy**	**LTL m**	**9.06**	**13.1**
16.	**Revenues for electricity (less capacity used)**	**LTL m**	**114.2**	**127.1**
17.	**Total revenues from core activities**	**-"-**	**190.8**	**228.0**
18.	**Profit (loss) from core activities**	**-"-**	**-39.4**	**2.3**
18.1.	Other operating revenues	LTL m	73.3	19.8
	Of them sales of tradable permits to CO_2 emissions that ensure profitability of the Company		71.2	19.8
18.2.	Revenue from financial investment activities	-"-	0.5	0.0
19.	**Total revenues**	**-"-**	**264.6**	**247.8**
20.	**Profit before taxes**	**-"-**	**31.2**	**22.1**

Planned emissions into the atmosphere in 2007, tonnes:

Table 10

Pollutants	2007	1st quarter	2nd quarter	3rd quarter	4th quarter
1. Planned emissions of flue gases, tonnes:					
SO_2	4505.96	1618.059	780.159	847.191	1260.56
NO_x	1355.280	194.516	263.851	483.471	413.442
CO	240.98	55.40	44.092	65.090	76.393
Ashes of crude oil and orimulsion	6.98	2.024	1.187	1.47	2.303
including V_2O_5	3.34	0.969	0.568	0.701	1.102
2. Planned hydrocarbon vapor (VOC) level, t:	0.308	0.0616	0.077	0.1078	0.0616
3. Planned emissions from small sources of pollution, t:					
NO_x	0.023	0.00575	0.00575	0.00575	0.00575
CO	0.065	0.01625	0.01625	0.01625	0.01625
Solid particles	0.034	0.0085	0.0085	0.0085	0.0085
Iron compounds	0.048	0.012	0.012	0.012	0.012
Manganese compounds	0.0066	0.00165	0.00165	0.00165	0.00165
Sulphuric anhydride	0.026	0.0065	0.0065	0.0065	0.0065
Sulphuric acid	0.003	0.00075	0.00075	0.00075	0.00075
VOC	0.02	0.004	0.004	0.004	0.004
4. Emissions, g/kWh, will consist of:	2005	2007			
SO_2	2.650	2.220			
NO_x	1.580	0.668			
CO	0.710	0.119			
Ashes of crude oil and orimulsion	0.012	0.003			
including V_2O_5	0.005	0.002			

Ash in boilers K-2 and K-8 will be precipitated in an electrostatic filter, granulated, packed into hermetic plastic bags and sent abroad for recycling.

Description of investments in AB Lietuvos elektrinė in 2007 - 2009

1. Assembly of a natural gas fired combined cycle turbo generator of 350÷450 MW capacity in the Lithuanian Power Plant.

Acting in accordance with Paragraph 8 of Article 2 of Protocol No 4 of the Accession Treaty of the Republic of Lithuania and under provisions of the National Energy Strategy, after the closure of the Ignalina Nuclear Power Plant as of 31 December 2009, the Lithuanian Power Plant will be the main producer of electricity in Lithuania. In order to ensure a secure supply of electricity, a unit of a combined cycle of about 400 MW has to be assembled at the power plant.

In the event a unit of a combined cycle is not assembled at the plant, in 2010 we can anticipate a shortage of capacity and a deficit of electricity in about 840 GWh.

Lithuania's chances to join the electricity market of Western Europe before 2010 are very limited due to technical problems. Currently the electricity trade market can only include the market of the CIS countries. However, the electricity import from Russia is also limited due to the transmission capacity of electric lines. Thus, Lithuania's possibilities to import power in 2010 are vague. The country will have to satisfy the demand for electricity producing it in local power plants.

In order to ensure a reliable supply of electricity at lowest prices possible, a most feasible solution is to modernize the Lithuanian power plant by building a unit of a combined cycle of about 400 MW.

Building this unit at the Lithuanian power plant would require less investment compared to building a new power plant in another location, because it would be possible to use the current facilities. Fuel costs for one KWh of energy would reduce by 30 %, compared to the costs of production in a 150 MW unit.

As a combined cycle technology allows reducing fuel costs by 30 %, environment pollution also reduces.

2. Replacement of 300 MW turbo generator TVV-320-2 in Unit 5

The turbo generator TVV-320-2 in Unit 5 (production No. 15974) was manufactured in 1966 and launched in 1967. The turbo generator has worked for 170 000 hours generating 38 000 000 000 kWh of electricity.

The turbo generator was repaired 9 times. In 1987, repair works after a failure in the turbo generator revealed multiple heating spots in the reactive metal, therefore replacement of the turbo generator was to take place before 1994. Due to the changed political situation it was impossible to obtain a new turbo generator before 1994 and the turbo generator was not replaced.

In 2003, AB Lietuvos elektrinė ordered a defect check in the turbo generator. The check was carried out by specialists from the factory "Elektrosila". The specialists concluded that the turbo generator had passed its operation life limit (the reactive metal in the turbo generator is far from satistfactory, the stator insulation system had passed its warranty life) and cannot ensure safe operation. No further repair work can improve the general status of the turbo generator, therefore it was recommended to replace the turbo generator by a new one.

3. Replacement of the electric feed pump in Unit 7.

The pump was assembled in 1971. It was manufactured at Leningrad Metal Factory which ceased pump production as far back as 1985. Currently no spare parts are produced for this type of pumps, furthermore, its hydraulic muff does not meet the modern requirements of the pump capacity control.

4. Upgrading of high pressure air preheaters in Unit 5.

High pressure air preheaters were manufactured in 1966. They have already reached their operation life limit. During the technical diagnostic check in 2006, when a hydraulic test was carried out in the spiral tube system, a number of cracks formed in the spriral tubes. The analysis of the cracks revealed that the tube walls of the spiral system had thinned to a critical level.

5. Replacement of an ejector pump 5A.

Due to insufficient water pressure in the inlet region of the ejector pump, an increased cavitation of inner surfaces takes place. Having dismantled the pump, we discovered washed metal particles from the working wheel and the casing of the pump. A new pump is necessary with a cavitation reserve of more than 3.6 metre water column.

6. Assembly of flue gas desulphurisation plants and absorbers.

Work on the assembly of these facilities in Unit 7 and Boiler 8A will continue in 2007 - 2008.

7. Installation of Low-NOx burners and booster fans.

It is an on-going project in Units 1, 2, 6, 7 and 8 for the period of 2007 – 2009.

8. Upgrading of the control systems in Units 5, 7 and 8.

Upgrading of the control systems in Units 5, 7 and 8 is projected to continue in the period of 2007 – 2009.

9. Upgrading of regenerative air preheaters.

Work on upgrading of regenerative air pre-heaters will be continued in Units 6, 7 and 8 in the period of 2007 – 2008.

10. Project management (quality assurance and eco management)

The services will be further provided in the period of 2007 – 2009.

Plan of Investments for the Year 2007

Table 11
LTL thou

No.	Project title	2007	2008	2009	Source of funding			
					Own resources	Ignalina national decommissioning fund	Ignalina international decommissioning support fund	TOTAL
	I. On-going projects							
1.1.	Assembly of flue gas desulphurisation plant and dust precipitators	160137284	57989346	0	0	29800000	188326630	218126630
1.2.	Installation of burners of low nitrogen oxide output and booster fans	40217904	10967393	26959462	75794759	2350000	0	78144759
1.3.	Upgrading of the control systems in Units 5, 7 and 8	15593880	10373178	6572128	32539186	0	0	32539186
1.4.	Upgrading of regenerative air preheaters	16393307	4291084	0	20684391	0	0	20684391
1.5.	Project management (quality assurance and eco management)	3288543	3561560	1641648	3396700	0	5095050,6	8491751
1.6.	Equipment not requiring installation	1500000	1500000	1500000	4500000	0	0	4500000
	II. New projects							
2.1.	Replacement of an ejector pump 5A	430000	0	0	430000	0	0	430000
2.2.	Upgrading of high pressure pre-heaters	2600000	0	0	2600000	0	0	2600000
2.3.	Replacement of an electric feed pump	1900000	0	0	1900000	0	0	1900000
2.4.	Construction of a 400MW combined-cycle gas turbine	86320000	345280000	345280000	233064000	0	543816000	776880000
2.5.	Replacement of a 300MW generator	0	0	36000000	36000000	0	0	36000000
	Total I and II:	**328380918**	**433962561**	**417953238**	**410909036**	**32150000**	**737237681**	**1180296717**

Chairman of the Board **Pranas Noreika**

BALANCE SHEET, 2006

(Reporting period)

31 December 2006

LTL

ITEMS	Notes	31 December 2006	31 December 2005
ASSETS			
Non-current assets:			
Non-current tangible assets	**5**	1,183,942,084	1,054,419,403
Intangible assets	**6**	102,819,624	216,091,452
Non-current accounts receivable	**7**	1,248,458	1,344,296
Deferred taxes	**27**	241,188	206,820
Total non-current assets		**1,288,251,353**	**1,272,061,970**
Current assets:			
Inventories	**8**	34,522,218	33,353,748
Accounts receivable and prepayments	**9**	26,749,743	20,945,566
Cash and Cash Equivalents	**10**	61,383,567	14,092,527
Total current assets		**122,655,528**	**68,391,841**
TOTAL ASSETS		**1,410,906,882**	**1,340,453,811**
EQUITY AND LIABILITIES			
Equity:			
Share capital	**11**	145,800,689	145,800,689
Revaluation reserve	**12**	678,996,602	692,623,615
Legal reserve	**12**	8,363,997	7,502,505
Other reserves	**12**	57,736,702	54,091,852
Revaluation reserve of unused CO2 emission rights	**13**	-	98,822,418
Retained earnings	**14**	55,592,163	26,447,779
Total equity		**946,490,152**	**1,025,288,857**
Grants and subsidies	**15**	**206,953,596**	**107,708,465**
Non-current liabilities:			
Bank loans	**16**	47,923,096	12,999,792
Financial leasing	**17**	6,696	45,979
Deferred profit tax	**27**	122,295,619	125,499,659
Total non-current liabilities		**170,225,411**	**138,545,430**
Current liabilities:			
Trade and other debts payable	**18**	37,641,277	13,427,080
Labour related liabilities	**19**	1,937,662	1,712,780
Current year profit tax		4,191,198	1,533,614
Pollution quota liabilities	**13**	43,428,302	52,199,792
Financial lease liabilities	**17**	39,283	37,794
Total current assets		**87,237,723**	**68,911,060**
TOTAL EQUITIES AND LIABILITIES		**1,410,906,882**	**1,340,453,811**

Director General
Pranas Noreika

(signature)

Chief Accountant
Rolandas Jankauskas

(signature)

INCOME STATEMENT, 2006

(Reporting period)

31 December 2006

LTL

ITEMS	Notes	31 December 2006	31 December 2005
INCOME FROM SALES	**20, 22**	190,762,359	202,958,526
COSTS OF SALES	**21, 22**	(216,944,735)	(175,070,921)
GROSS PROFIT (LOSS)		**(26,182,376)**	**27,887,604**
Operating costs	**23**	(13,215,580)	(13,117,755)
Other operating income	**24**	73,324,327	2,309,867
Other operating costs	**24**	(2,382,353)	(2,061,449)
Interest income		541,731	499,803
Operating profit (loss)		**32,085,749**	**15,518,070**
Financing costs	**25**	(461,719)	(921,192)
Effect of change in the currency exchange rate		(450,430)	5,950,087
PROFIT (LOSS) BEFORE TAXES		**31,173,600**	**20,546,965**
Profit tax expenses (gain)	**26**	(6,166,379)	(3,317,123)
NET PROFIT (LOSS)		**25,007,221**	**17,229,842**
Profit (loss) per share	**28**	**0.17**	**0.12**

Director General
Pranas Noreika

(signature)

Chief Accountant
Rolandas Jankauskas

(signature)

STATEMENT OF CHANGES IN EQUITY, 2006

(Reporting period)

31 December 2006

LTL

	Paid up authorised capital	Revaluation reserve of non-current tangible assets	Legal reserve	Other reserves	Revaluation reserve of unused CO2 emision rights	Retained earnings	TOTAL
At 31 December 2004	**145,800,689**	**707,383,281**	**6,910,546**	**49,135,664**	**-**	**5,651,728**	**914,881,909**
Net profit	-	-	-	-	-	17,229,843	**17,229,843**
Dividends paid	-	-	-	-	-	(4,735,674)	**(4,735,674)**
Reserves used	-	-	-	(1,555,364)	-	1,555,364	**-**
Transfer to legal reserve	-	-	591,959	-	-	(591,959)	**-**
Transfer to other reserves	-	-	-	6,511,552	-	(6,511,552)	**-**
Decrease in the revaluation reserve due to depreciation or writing off of the revalued assets	-	(13,850,028)	-	-	-	13,850,028	**-**
Increase of deferred tax liability due to the change of income tax rate	-	(909,639)	-	-	-	-	**(909,639)**
Revaluation of emssion rights	-	-	-	-	98,822,418	-	**98,822,418**
At 31 December 2005	**145,800,689**	**692,623,615**	**7,502,505**	**54,091,852**	**98,822,418**	**26,447,779**	**1,025,288,857**
Net profit	-	-	-	-	-	25,007,221	**25,007,221**
Dividends paid	-	-	-	-	-	(4,983,508)	**(4,983,508)**
Reserves used	-	-	-	(2,968,920)	-	2,968,920	**-**
Transfer to legal reserve	-	-	861,492	-	-	(861,492)	
Transfer to other reserves	-	-	-	6,613,770	-	(6,613,770)	**-**
Decrease in the revaluation reserve due to depreciation and writing off of the revalued assets	-	(13,627,013)	-	-	-	13,627,013	**-**
Decrease in revaluation reserve of unused CO2 emission rights	-	-	-	-	(98,822,418)	-	**(98,822,418)**
At 31 December 2006	**145,800,689**	**678,996,602**	**8,363,997**	**57,736,702**	**-**	**55,592,163**	**946,490,152**

Director General
Pranas Noreika
(signature)

Chief Accountant
Rolandas Jankauskas
(signature)

CASH FLOWS STATEMENT, 2006

(Reporting period)

31 December 2006

LTL

ITEMS	31 December 2006	31 December 2005
OPERATING ACTIVITIES		
Cash receipts from customers	293,855,752	245,725,507
Other income	46,496	90,986
Cash paid to suppliers and employees	(242,338,224)	(188,527,676)
Other payments	(2,739,942)	(14,332,482)
Cash generated from operations	**48,824,082**	**42,956,336**
Income tax paid	(1,304,168)	(3,989,080)
Interest paid	(102,181)	(580,854)
Net cash from operating activities	**47,417,734**	**38,386,402**
INVESTING ACTIVITIES		
Acquisition of plant, property and equipment	(51,540,762)	(48,831,710)
Proceeds from disposal of plant, property and equipment	2,203	-
Repayment of loans granted	95,838	69,525
Interest received	541,731	499,803
Term deposits	-	21,000,000
Net cash used in investing activities	**(50,900,989)**	**(27,262,382)**
FINANCING ACTIVITIES		
Proceeds from borrowings	34,923,304	-
Repayment of borrowings	(37,794)	(14,707,745)
Dividends paid	(3,370,602)	(4,703,787)
Grants recieved	19,259,387	19,971,000
Net cash from financing activities	**50,774,295**	**559,468**
Effect of foreign exchange rate changes	**-**	**126,107**
equivalents	**47,291,039**	**11,809,594**
OF THE YEAR	**14,092,527**	**2,282,933**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**61,383,567**	**14,092,528**

General Director
Pranas Noreika

(signature)

Chief Accountant
Rolandas Jankauskas

(signature)

1. General information

Acting in accordance with the Law on Reorganization of the Public Special-Purpose Company "Lietuvos Energija" No VIII – 1693 of 18 May 2000, "Lietuvos Energija" underwent reorganization by way of company splitting, i.e. a portion of assets, rights and obligations was separated from "Lietuvos Energija" and new companies were established on that basis, including public company "Lietuvos elektrinė", public company "Mažeikių Elektrinė", public company "Rytų Skirstomieji Tinklai" and public company "Vakarų Skirstomieji Tinklai".

The public company "Lietuvos elektrinė" was registered with the Ministry of Economy on 31 December 2001 in accordance with the Law on Register of Enterprises of the Republic of Lithuania:

- Company registration No. – BĮ 01-249;
- Company code – 110870933;
- VAT payer's code – 108709314;
- Policyholder registration in the Social Insurance Fund–No. 853488;
- Registered office: Elektrinės St. 21, Elektrėnai, Republic of Lithuania;
- The authorized capital of the Company is LTL 145,800,689;
- The company aims to ensure reliable and efficient supply, transmission and distribution of electricity and thermal energy of high quality.

The prices of the power energy supplied by the Company are regulated by the State Price and Energy Control Commission. For 2006 the Commission established the purchase price for the electric energy generated by the Company in which the production of electric energy is required to ensure the reserves of the energy system at 13.77 ct/kWh (excl. VAT).

The financial year of the Company is the calendar year. The anticipated duration of the commercial - economic activity is unlimited.

The Company is a member of the Lithuanian Electricity Association and an active participant in the activities of the Association representing the common interest of the European electricity sector (EUROELECTRIC).

As of 31 December the Company had 688 employees (on 31 December 2005 – 728 employees).

The financial statements presented have been drawn up in the national Lithuanian currency – litas (LTL).

2. Application of new and revised IASs

During the accounting period the Company introduced all new and revised Standards and Interpretations approved by the International Accounting Standards Board (IASB) and the International Reporting interpretations Committee of the International Accounting Standards Board (IFRIC) that are related to the operations of the Company and were made effective starting with the accounting period that started on 1 January 2005. The adoption of the new and the revised Standards and Interpretations had no significant effect upon the change in the accounting policy of the Company.

At the date of the authorization of these financial statements the following Standards and Interpretations were issued but not yet effective.

New Standard, Interpretation, Revision	**Approval date**	**Valid for accounting period beginning on or after**
IAS 39 revised - Cash flow hedge of forecast intra-group transactions - Financial Guarantee Contracts (IFRS 4 amended accordingly) - Fair value option	2004	1 January 2006
Amendments to IAS 1 to add capital disclosures	2005	1 January 2007
IAS 19 Employee Benefits	2004	1 January 2006
IFRS 4 Insurance Contracts: amendments for the financial guarantee contracts	2005	1 January 2006
IFRS 6 Exploration for and Evaluation of mineral Resources (IFRS 1 amended accordingly)	2004	1 January 2006
IFRS 7 Financial Instruments: Disclosure (supersedes 30 IAS)	2005	1 January 2007
IFRIC 4 – Determining whether an Arrangement Contains a Lease	2004	1 January 2006
IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds	2004	1 January 2006
IFRIC 6 – Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	2005	1 January 2005
IFRIC 7 –Appling the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	2005	1 March 2006
IFRIC 8 – Scope of IFRS 2	2006	1 May 2006
IFRIC 9 – Reassessment of Embedded Derivatives	2006	1 June 2006

The management of the Company believes that the adoption of these Standards and Interpretations in future period will have no material impact upon the financial statements of the Company.

3. Accounting policy

Basis for the preparation of the financial statements
These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), approved by the International Accounting Standards Board (IASB) and the and the International Reporting interpretations Committee of the International Accounting Standards Board (IFRIC) that are related to the operations of the Company and are effective starting from the accounting period that commenced on 1 January 2005.

These financial statements have been prepared on the basis of the modified principle of the acquisition value (due to revaluation of non-current assets, greenhouse gas emissions permits, and the related State grants, and the measurement of certain financial instruments at fair value). Starting from 1 January 2004 (transition to IFRS) the fair value of non-current assets is considered to represent deemed cost.

Non-current intangible assets
Intangible assets should be recognized if it satisfies the definition of intangible assets and the following recognition criteria: the enterprise can reasonably expect to obtain future economic benefits from the assets; the historical (production) cost of the assets can be reliably measured and distinguished from the value of other assets; the enterprise can dispose such assets, control them or limit the others' right to use such assets.

The non-current intangible assets are accounted at acquisition costs less accumulated depreciation and the impairment losses evaluated.

Amortization is computed using the straight-line method over the estimated useful lives of the related assets. The liquidation value is not calculated. In the income statement amortization expenses are distributed into depreciation, amortization and impairment loss expenses.

The groups of intangible assets and their amortization periods have been determined as follows:

Software	3
Other intangible assets	4

Non-current tangible assets
Non-current tangible assets are recorded at deemed cost less the subsequent accumulated depreciation and the impairment value. As a result of the Company's transition to IFRS the property, plant and equipment were revalued at fair value that is considered to be deemed cost as of transition date. Fair value of the assets was determined on the basis of the results of revaluation performed by the independent assets valuators UAB "Korporacija Matininkai" on 31 December 2002. The revaluation results were recorded in the accounts on 1 January 2004.

Depreciation is provided in equal monthly installments except for the month the asset is placed in service over the expected average useful lives as follows:

Buildings	30-75
Constructions	10-70
Pipelines, lines	10-50
Heat equipment	10-60
Power equipment	10-50
Measuring devices and equipment	5-30
Computer hardware, management and communication equipment	5-20
Other equipment	5-40
Vehicles	6-50
Tools	5-15
Inventory and other assets	4-15

Assets are recognized as non-current assets if their useful life is longer than one year and the acquisition value not less than LTL 2,000.

Gains and losses on disposal of tangible non-current assets are recognized in the income statement during the year of disposal.

Impairment of assets
At each balance sheet date the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists the Company shall recalculate the recoverable value of the assets in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable value of the assets the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or the cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had not impairment loss been recognized for the asset (cash-generating unit) in prior years. Any reversal of the impairment loss is recognized as income immediately.

Greenhouse gas emission allowances – The system for trading in greenhouse gas emissions permits was established on the basis of the Directive 2003/07/EC of the European Parliament and of the Council and will be put into operation on 1 January 2005. The first period of the operation of the system will cover three years, starting from 2005 and until 2007, the second period will last for five years from 2008 to 2012, in line with the period established in the Kyoto agreement. The system operates on the basis of "Cap" and "Trade". Each Member State of the European Union is required to establish the allowances for each emission object and the implementation period. The allowances are established in the National Allocation Plan (NAP) to be drawn up by the competent authority of each Member State (in Lithuania – the Ministry of Environment). The NAP establishes the annual pollution allowance (measured in tones of carbon dioxide equivalent) per each object and specified period and allocates the respective annual green house emissions permits.

A Member State is obligated to allocate the greenhouse emissions permits by 28 February each year on the basis of the NAP (part of the permits are reserved for new entrants).

A Member State must ensure that by 30 April of the next year the manager of each pollution object submit the data on the actual emissions during the current calendar year. Such pollution objects shall be obligated for the first time to submit the reports on the use of the emissions permits for 2005 by 30 April 2006.

<u>Intangible assets</u>
The EU green house emissions permits are the intangible assets allowed by the State in the form of a non-monetary grant, and recognized in the accounts at fair value at the moment of its issue of the transfer.

Following the initial recognition the intangible asset is revaluated at fair value on the basis of the active market prices. The revaluation result related to the unused permits is directly recognized in the equity item. The revaluation result in respect of the liabilities related to the used permits (whether used or transferred) is recognized in the income statement.

<u>State grant</u>
The EU emissions permits allowed to the Company at no charge are considered to represent the non-monetary State grants that are recognized in the accounts at fair value at the date of their receipt or issue. Subsequently the State grant for the use of the emissions permits during the term of validity of such permits or upon their transfer is recognized as income.

<u>Provision for the use of the greenhouse gas emissions permits</u>
Upon the emission by the Company of pollutants into the environment an obligation arises to account for the pollution with the State by means of permits the nominal value whereof corresponds to the amount of emissions. This obligation is a provision that is measured at the value corresponding to the costs to be incurred by the Company to discharge the liability at the balance sheet date. The liability may be offset with

intangible assets only provided the amounts of emissions are approved by a competent public authority. Changes in the fair value of the liability are recognized in the income statement.

Revenue recognition

Sale
Revenue from the supply of power, heat energy and the electric energy reserve are recognized on the monthly on the basis of the readings of the metering devices (on the basis of the accrual principle).

Sale of services
Revenues are recognized when the transaction is finished or the stage of the completion of the transaction at the balance sheet date can be measures reliably.

Revenue from the sale of goods
Revenue from the sale of goods is recognized when significant risks related to the sold goods and reward of ownership of the goods are transferred to the buyer and the amount of revenue can be measured reliably.

Interest
Interest income is recognized on accrual basis by reference to the principal outstanding and the interest rate applicable.

Expense recognition
Expense in the accounting is recognized on the basis of the accrual principle.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale. Interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the acquisition value of those assets.

Borrowing costs are recognized as cost in the income statement in the period in which they are incurred.

The Company has been applying the current accounting policy since 1 January 2005. Before that date the Company recognized the borrowing costs as costs in the income statement of the period in which they were incurred.

Financial instruments – Financial assets and financial liabilities are recognized on the Company‘s balance sheet when the Company has become a party to the contractual provisions of the instrument.

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand and in bank, term deposits and other short-term liquid investment readily convertible into express amounts of cash characterized by an insignificant risk of the change in value.

Trade receivables
Trade receivables are initially measured at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated recoverable amounts are recognized in the income statement when there is objective evidence that the asset is impaired. The impairment amount is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

The change in the fair value of the financial instruments is recognized as investment gains (loss).

Accounting of lease

Lease is classified as financial lease when under the lease terms substantially all the risks and the awards of the ownership are transferred. The lease of the assets where the lessor retains a substantial part of the risks and the awards of the ownership is classified as operating lease.

Company as lessor
When assets are held subject to financial lease the present value of the lease payment is recognized s a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned financial income. Lease income is recognized over the term of the lease using the net investment method which reflects a constant period rate of return.

Assets held under operating lease are recorded in the balance sheet as non-current tangible assets. Such assets are depreciated over their estimated useful lives. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Company as lessee
Assets held under financial lease are recognized as assets at fair value equal to the fair value at the beginning of the lease, and where the fair value is lower then at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a financial lease obligation. The lease payments are distinguished into financial costs and the reduction of the financial liability so as to produce a constant periodic rate of charge on the remaining balance of the obligations. Financial costs are recognized as costs in the income statement

Inventories
Inventories in the financial statements are stated at the lower of acquisition (production) cost or net realizable value.

The costs of purchase of inventories comprises the purchase price, al purchase-related taxes (except those to be recovered later), transportation, preparation for use and other costs directly attributable to the acquisition of inventories.

The cost of inventories is computed using the FIFO cost method (which assumes that the items of inventory that were sold or used first are purchased first) and the weighted average method (in respect of boiler oil).

Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value.

Taxation
Income tax expense represents the sum of the tax currently payable in the current year and movements in deferred income tax.

The charge for current tax is based on the result for the year as adjusted for items not increasing or decreasing the income tax. The income tax costs are calculated using tax rates effective at the date of the drawing up of the financial statements.

The deferred tax is accounted using the balance sheet liability method. Deferred tax assets and liabilities are measured for future tax purposes, recognizing the differences between the carrying amount of existing assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognized for all taxable temporary differences, and the deferred tax assets are recognized to the extent that will probably reduce the tax liability in the future. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill), or from the initial recognition (other than in business combination) of other assets and liabilities in transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probably that the temporary difference will not reverse in the foreseeable future.

The carrying amount of the deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is not longer probable that sufficient taxable profits will be available to realize the asset to the amount that will probably in the future reduce the tax profit.

Deferred tax assets and liabilities are measured using the effective tax rate used to calculate the taxable income of the year in which those temporary differences are expected to reverse or be settled. The deferred tax costs and income are recognized in the income statement except where they are related to items accounted in owners' equity when the deferred taxes are also accounted in owners' equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same authority and when the Company intends to cover the taxes due at fair value.

Foreign currency
Transactions denominated in foreign currency are translated into litas at the official exchange rate as fixed by the Bank of Lithuania on the date of the transaction which approximates the prevailing market rates. Monetary assets and liabilities are translated at the rate of exchange of the balance sheet date. The applicable rates used for the drawing up of the balance sheet as of 31 December 2006 and 2005 were as follows:

2006			**2005**		
1 USD	=	LTL 2.6304	1 USD	=	LTL 2.9102
1 EUR	=	LTL 3.4528	1 EUR	=	LTL 3.4528

Exchange rate differences resulting from the settlement of transactions in foreign currencies are recorded in the income statement in the period in which they arise. Gain or loss on changes in the foreign currency exchange rates when translating the monetary assets or liabilities into litas are recorded in the annual income statement.

Business segment
A business segment is a distinguishable component of a company that is engaged in providing an individual product or service or a group of related products or services that is subject to risks and returns that are different from those of other business components of the Company.

The business segments distinguished in the operations of the Company are the production of power and heat energy.

Geographical segment
A geographical segment is a distinguishable component of a company that is engaged in providing products or services within a particular geographic economic environment and that is subject to risks and returns that are different from those of the components operating in other geographic economic environment.

The Company does not distinguish any geographical segments.

Financial risk management policy
<u>Credit risk</u>
Credit risk attributable to trade receivables is limited because the principal customer of the Company is its reliable customer AB "Lietuvos energija".

Credit risk related to cash in bank is limited because the Company effects operations with banks of high credit ratings assigned by international credit-rating agencies.

<u>Interest rate risk</u>
The Company's loans consist of loans with floating interest rate which is related to LIBOR, VILIBOR. The Company did not use any financial instruments in order to control the risk of interest rate changes.

<u>Foreign currency exchange risk</u>
The Company uses the derivative financial instruments in order to control foreign currencies exchange risk .

<u>Liquidity risk</u>
In order to maintain a sufficient amount of cash and control over liquidity risk the Company makes monthly and annual cash flows forecasts.

Accounting of grants

Grants are accounted on the accrual basis, i.e., grants received are recognized as used in the periods in which the costs related to the grants are incurred.

Assets-related grants

Grants received in the form of non-current assets or intended for the acquisition of non-current assets. The grants are measured at fair value of the assets received and recognized to the extent of the share used by reducing the assets depreciation costs over the useful life of the corresponding non-current assets.

Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the shareholders.

Related parties

Related parties are defined as shareholders, employees, members of the Board, their close relatives, profit - seeking State controlled companies, and the companies that directly r indirectly via an intermediary control the Company or are controlled or are under control with the other party that is also recognized as a related party on the condition that this relationship enables one of the parties or exercise a significant influence over the other party in making financial or operating decisions.

4. Critical judgments and uncertainties

Critical judgments in applying the Company's accounting policy

Non-current assets depreciation rates
In making its judgment for the remaining useful life of the non-current tangible assets the management of the Company is guided by the conclusions of the employees responsible for the maintenance of the non-current tangible assets.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Fair value of the non-current tangible assets
The Company, on the annual basis, referring to the assets impairment accounting policy, examines the non-current tangible assets for possible impairment loss. The recoverable value of the money-generating unit is established on the usage value method. As of 31 December 2006, non-current tangible assets showed no indications of the impairment loss of the fair value.

5. Tangible assets

	Buildings and constructions (LTL)	Machinery and equipment (LTL)	Vehicles (LTL)	Other property, plant and equipment (LTL)	Construc-tion in progress (LTL)	Total (LTL)
Deemed cost						
31 December 2005.	217,497,737	978,236,744	2,523,797	190,283,491	3,228,018	1,391,769,788
Change of the financial year:						
- acquisitions	-	153,325,932	208,525	842,815	1,078,890	155,456,163
- disposals and write-offs (-)		(3,654)	(68,936)	(238,358)	-	(310,948)
- written back	-	-	-	1,700	-	1,700
- transfers from one heading to another +/(-)	(89,580)	1,116,503	6,007	163,290	(1,147,450)	48,500
31 December 2006	**217,407,887**	**1,132,675,525**	**2,669,394**	**191,052,938**	**3,159,458**	**1,549,924,220**
Depreciation						
31 December 2005	47,493,136	244,552,198	1,555,507	43,749,544	-	337,350,385
Change of the financial year:						
- depreciation in the financial year	3,036,933	18,523,258	143,497	4,255,076	-	25,958,765
- depreciation of transferred and written—off assets (-)	-	(3,451)	(68,487)	(232,169)	-	(304,107)
- reclassification from deemed cost						
- written back	-	-	-	1,700	-	1,700
- transfers from one heading to another +/(-)	(89,580)	(28,859)	5,704	129,381	-	16,376
31 December 2006	**50,440,219**	**263,043,147**	**1,636,221**	**47,903,532**	**-**	**363,023,119**
Residual value 31 December 2005	**170,004,602**	**733,684,546**	**968,290**	**146,533,947**	**3,228,018**	**1,054,419,403**
Residual value 31 December 2006	**166,967,668**	**869,632,378**	**1,033,172**	**143,149,406**	**3,159,458**	**1,183,842,084**

All non-current assets of the Company are held for own use. The depreciation costs adjusted for the used part of the grant are accounted as cost and other operating costs (Notes 15, 21, 24).

Under a syndicated credit agreement the Company has subscribed to mortgage bonds and pledged plant and property the residual value whereof, was, respectively, LTL 343,539,000 and LTL 140,986 000. As of 31 December 2005, the Company had no pledged non-current assets.

Residual value of leased property as of 31 December 2006 was LTL 94,859 (31 December 2005 – LTL 106,242).

6. Intangible assets

	Software (LTL)	Greenhouse gas emissions permits (Note 13 (LTL)	Other intangible assets (LTL)	Total (LTL)
Acquisition cost				
31 December 2005	402,235	216,000,273	-	216,000,273
Change in the financial year:				
- acquisition of assets	26,866	49,634,105	2,968,844	52,629,815
- transferred and written-off (-)	(14,982)	(52,219,436)		(52,234,418)
- transfers to tangible assets (-)	(48,500)	-	-	
- impairment of the unused greenhouse gas emissions permits	-	(113,601,176)	2,968,844	(113,601,176)
31 December 2006	**365,619**	**99,813,766**	**2,968,844**	**103,148,229**
Amortization				
31 December 2005.	311,056	-	-	311,056
Change in the financial year:	-			
- amortization in the financial year	48,907	-	-	48,907
- amortization of transferred ad written-off assets (-)	(14,982)	-	-	(14,982)
- transfers to tangible assets (-)	(16,376)	-	-	(16,376)
31 December 2006	**328,605**	**-**	**-**	**328,605**
Residual value 31 December 2005	**91,179**	**216,000,273**	**-**	**216,091,452**
Residual value 31 December 2006	**37,014**	**99,813,766**	**2,968,844**	**102,819,624**

Amortization costs are accounted as cost.

7. Long-term receivables

As of 31 December amounts receivable after one year were as follows:

	2006 (LTL)	2005 (LTL)
Receivables for loans to employees	1,248,458	1,344,295
Total:	**1,248,458**	**1,344,295**

Annual interest rate for the loans extended is 0.1 – 1 percent, maturity – up to 25 years.

8. Inventories

As of 3 December the Company's inventories comprised:

	2006 (LTL)	2005 (LTL)
Fuel	26,885,190	24,375,914
Spare parts	4,486,490	4,686,025
Materials	2,976,130	4,039,527
Other	174,408	252,282
Total:	**34,522,218**	**33,353,748**

Under credit agreement concluded with AB bankas "Norld/LB", the Company on 31 December 2006 pledged the fuel reserves for LTL 16,242,618 (2005 -LTL 16,242,618 Lt) (Note 16).

9. Amounts receivable and prepayments

As of 31 December amounts receivable within one year were as follows:

	2006 (LTL)	2005 (LTL)
Trade receivables	26,867,954	19,901,971
Provisions for doubtful debts (-)	(898,439)	(1,143,288)
VAT receivable	-	1,224,856
Prepayments	743,552	920,245
Other debts	36,676	41,782
Total:	**26,749,743**	**20,945,566**

Change in allowances for doubtful amounts in the year:

	2006 (Lt)	2005 (Lt)
1 January.	**1,143,288**	**1,540,706**
Provision write back (Note 23)	(244,849)	(397,418)
31 December .	**898,439**	**1,143,288**

10. Cash and cash equivalents

Cash on 31 December:

	2006 (Lt)	2005 (Lt)
Funds in current bank accounts	52,714,038	4,461,781
Overnight deposit	8,669,529	9,630,746
Total:	**61,383,567**	**14,092,527**

According to credit agreement concluded with AB bankas "DnB Nord", the Company had pledged the existing and future funds held with the bank. The balance of the funds with AB bankas "DnB Nord" as of 31 December 2006 was LTL 793,067 (2005: LTL 877,164).

11. Share capital

On 31 December, the Company's share capital consisted of 145,800,689 ordinary registered shares at par value of LTL 1 each. All shares are fully paid up.

On 31 December, the Company's shareholders were:

Shareholders	Holding in the authorized capital (LTL)	Percent
State represented by the Ministry of Economy of the Republic of Lithuania	140,638,221	96,46
Other	5,162,468	3,54
Total:	**145,800,689**	**100.00**

In the accounting year 2006 the share capital of the Company did not change.

12. Reserves

The revaluation reserve consists of the appreciation of the non-current tangible assets resulting from the asset revaluation. The independent assets valuators UAB "Korporacija Matininkai" conducted the asset valuation on 31 December 2002. The revaluation results were recorded in the accounts on 1 January 2004.

The legal reserve is compulsory under the Lithuanian legislation. Annual contributions of at lest 5% of the net distributable profit is required until the legal reserve reaches 10% of the registered share capital. This reserve may be used only for the reduction of the accumulated loss.

On 31 December 2006, other reserves of the Company accounted for LTL 57,736,702.

13. Greenhouse gas emission permits

On 31 December the greenhouse gas emission allowances were accounted as follows:

	Greenhouse gas emission allowances (Note 6) (LTL)	Greenhouse gas emission allowances revaluation reserve (LTL)	State grants (Note 15) (LTL)	Provisions for unused gas emission allowances (LTL)
31 December 2005	**216,000,273**	**98,822,418**	**64,978,063**	**52,199,792**
State grant received at fair value	162,000,205	-	162,000,205	-
Approved emissions	(52,219,436)	(11,852)	(7,793)	(52,199,792)
Impairment of greenhouse gas emission permits	(225,967,276)	(98,810,566)	(127,156,709)	-
Provisions for used gas emission allowances	-	-	(43,428,302)	43,428,302
31 December 2006	**99,813,766**	**-**	**56,385,464**	**43,428,302**

14. Draft profit distribution

Draft profit distribution of 31 December for approval of the shareholders, Annex 1

15. Grants and subsidies

Balance of grants as of 31 December and the use during the year:

	Assets-related grants (fuel incineration plant and other property (LTL)	Assets-related grants (Renovation, environmental and safety standards enhancement project) (Lt)	Grants for greenhouse gas emission allowances (LTL)	Total (LTL)
Balance of grants as of 31 December 2004	**3,238,021**	**19,895,000**	-	**23,133,021**
Depreciation of non-current assets	(373,619)	-	-	**(373,617)**
Grants received	-	19,971,000	85,685,215	**105,656,215**
Greenhouse gas emission allowances used	-	-	(20,707,152)	**(20,707,152)**
Balance of grants as of 31 December 2005	**2,864,402**	**39,866,000**	**64,978,063**	**107,708,465**
Depreciation of non-current assets (Note 5)	(373,698)	-	-	**(373,698)**
Grants received	14,477	108,196,951	162,000,205	**270,211,633**
Impairment of greenhouse gas emission allowances	-	-	(127,156,709)	**(127,156,709)**
greenhouse gas emission allowances used	-	-	(43,436,095)	**(43,436,095)**
Balance of grants as of 31 December 2006	**2,505,181**	**148,062,951**	**56,385,464**	**206,953,596**

During 2006, the assets-related grants (fuel incineration plant and other assets) decreased by LTL 373,69, for the amount of the depreciation of non-current assets (2005 – LTL 373,619). This amount decreased the cost of depreciation of non-current assets in the income statement.

During 2006 the Company from the State enterprise Ignalina Nuclear Power Plat decommissioning fund received grants of LTL 19,259,386 (2005 - LTL 19,971,000). The funds are intended for co-financing of the renovation, environmental and safety standards enhancement project. As of 31 December 2006, all funds were used (on 31 December 2005, they were not yet used).

Per 2006 from the International Ignalina Decommissioning Support Fund received LTL 88,937,565 (no receipts in 2005). The funds will be used for co-financing of the project of the removal of sulphuric oxides from smoke and the solid particles collection plant. As of 31 December 2006, all funds were used.

16. Bank loans

As of 31 December the loans from banks were as follows:

	2006 (LTL)	2005 (LTL)
AB bankas "DnB Nord", EUR, repayable by 01-05-2013	12,999,792	12,999,792
Syndycated loan (AB bankas "Hansabankas", AB "SEB Vilniaus bankas", Nordea Bank Finland Plc Lithuanian branch, AB bankas "DnB Nord"), Lt, repayable by 09-11-2020	34,923,304	-
	47,923,096	**12,999,792**

Bank loans will be repaid:

	2006 (LTL)	2005 (LTL)
In the first year	-	-
In the second year	-	-
In the third year	2,850,632	-
In the fourth year	6,564,857	-
In the fifth year	6,564,857	3,714,225
After five years	31,942,751	9,285,567
	47,923,096	**12,999,792**
Short-term share	-	-
Long-term share	47,923,096	12,999,792
	47,923,096	**12,999,792**

Under the credit agreement signed with AB bankas "Nord/LB" the Company was extended a credit of 3,765,000 EUR. Credit repayable in 2010-2013. Floating interest rate applies - 12 months LIBOR + 0.84 % margin. Under this agreement the Company as of 31 December 2006 had pledged its current and future funds in the accounts of the bank and part of the fuel reserve for LTL 16,242,618 (2005 - LTL 16,242,618). Under this credit agreement on 31 December 2006 and 2005, all funds of the credit were used.

On 9 November 2005, the Company signed the credit agreement with AB bankas "Hansabankas", AB SEB Vilniaus bankas, Nordea Bank Finland Plc Lithuanian branch and AB bankas "Nord/LB Lietuva", providing for a 49,000,000 EUR loan to the Company. Floating interest rate applies - 12 months LIBOR + 0.8 % margin. The ultimate credit repayment date is 9 November 2020. After the balance sheet date, on 28 March 2006, the Company subscribed to mortgage bonds and pledged the equipment for LTL 343,539,000, buildings for LTL140,986,000. Under the agreement the Company as undertaken jointly to all the banks to pledge its current and future funds in the Bank's accounts. Under this credit agreement as of 31 December the Company has withdrawn 10,114,488 EUR (not used on 31 December 2005). Purpose of the credit – financing of the first investment program.

The carrying amount of the bank loans is approximate to their fair value.

17. Financial lease liabilities

On 31 December 2006, the future minimum financial lease installments consisted of:

	Minimum financial lease installments (LTL) 2006	Present value of the minimum financial lease installments (LTL) 2006
Amounts payable under financial lease agreements :		
During the firs year	40,371	39,283
During the second-fifth year	6,728	6,696
After five years	-	-
Minimum financial lease installments	**47,099**	**-**
Less the interest	(1,120)	-
Present value of the minimum financial lease installments	**45,979**	**45,979**

Leasing liabilities are secured since in case of default under the leasing liabilities the ownership of the assets held under lease shall automatically be returned to the lessor.

The leasing agreement provides for the interest rate of 6 months' EURIBOR + 1.67 % margin.

18. Trade and other payables

As of 31 December, trade and other amounts payable were as follows:

	2006 (LTL)	2005 (LTL)
Debts to suppliers for construction works and investment	20,192,722	2,233,653
Debts to suppliers for fuel	8,820,749	3,201,692
Debts to suppliers for repair works	2,609,076	1,573,725
Debts to suppliers for inventories	1,314,254	4,362,429
Other debts for services	1,473,461	235,732
Tax payable (except corporate income tax)	1,166,321	683,472
Advance payments received	1,107,281	54,653
Outstanding dividends	886,655	974,007
Other	70,758	107,717
Total:	**37,641,277**	**13,427,079**

19. Liabilities related to labour relations

As of 31 December , the Company's' liabilities related to labour relations were as follows:

	2006 (LTL)	2005 (LTL)
Holiday reserve	1,339,932	1,088,526
Taxes payable	597,730	624,254
Total:	**1,937,662**	**1,712,780**

20. Sales

Sales for the year that ended on 31 December were:

	2006 (LTL)	2005 (LTL)
Production of electricity	119,632,890	118,176,862
Cold capacity reserve	53,938,780	69,589,440
Heat energy	9,056,004	8,497,652
Warm reserve	7,971,600	6,524,047
Other revenue	163,085	170,525
Total:	**190,762,359**	**202,958,526**

21. Costs

Costs for the year that ended on 31 December were:

	2006 (LTL)	2005 (LTL)
Gas	126,799,141	83,489,206
Depreciation and amortization costs	25,618,974	24,490,469
Wages and social insurance	21,536,914	19,689,095
Materials	14,609,004	21,492,231
Repair	13,789,597	6,113,757
Orimulsion	9,212,068	17,531,647
Balancing electric energy	3,097,356	617,894
Boiler fuel	1,243,389	705,014
Other	1,038,293	941,609
Total:	**216,944,735**	**175,070,921**

22. Business segments

The Company distinguishes the electric energy production and the heat energy production business segments. Information for the two business segments as of 31 December 2006 and for the year then ended is provided below:

2006	Electricity production (LTL)	Thermal energy production (LTL)	Other (LTL)	Total (LTL)
Sales	**181,706,355**	**9,056,004**	**-**	**190,762,359**
Costs	(207,566,510)	(9,378,226)		(216,944,735)
Segment gross profit				
Operating costs				(13,215,580)
Other operating income				73,324,327
Other operating costs				(2,382,353)
Interest income				541,731
Financing costs				(461,719)
Effect of changes in the currency exchange rate				(450,430)
Profit tax expenses				(6,166,379)
Net profit				**25,007,221**
Other information				
Assets	1,029,303,397	7,976,724	373,626,761	1,410,906,882
Liabilities			257,463,502	257,463,134
Acquisitions of tangible and intangible assets			208,076,151	208,085,978
Depreciation and amortization	25,792,672	200,000	15,000	26,007,672

Information for the two business segments as of 31 December 2005 and for the year then ended is provided below.

2005	Electricity production (LTL)	Thermal energy production (LTL)	Other (LTL)	Total (LTL)
Sales	**194,460,874**	**8,497,652**	**-**	**202,958,526**
Costs	(169,039,935)	(6,030,986)	-	(175,070,921)
Segment gross profit	**25,420,939**	**2,466,666**	**-**	**27,887,605**
Operating costs				(13,117,755)
Other operating income				2,309,867
Other operating costs				(2,061,449)
Interest income				499,803
Financing costs				(921,192)
Effect of changes in the currency exchange rate				5,950,087
Profit tax expenses				(3,317,123)
Net profit				**17,229,843**
Other information				
Assets	1,167,777,540	9,463,468	163,212,803	1,340,453,811
Liabilities	-	-	207,456,489	207,456,489
Acquisitions of tangible and intangible assets	-	-	264,403,569	264,403,569
Depreciation and amortization	24,664,724	200,000	15,000	24,879,724

23. Operating costs

Operating costs for the year than ended on 31 December, was:

	2006 (LTL)	2005 (LTL)
Salaries and social insurance	3,583,859	3,143,515
Pollution tax	966,771	1,820,044
Land lease charge	755,783	755,786
Property security costs	755,017	503,918
Immovable property tax	544,147	524,325
Insurance costs	484,022	41,403
Repair	374,276	744,051
Business trips	326,668	229,456
Communications and postal services	267,997	262,803
Costs of unused vacations by employees	251,406	153,526
Check-ups and servicing	164,942	133,891
Employee training	152,270	129,435
Consulting and translation services	83,131	1,701,905
Medical servicing costs	71,633	81,162
Electric energy purchased	51,138	41,533
Current assets write-offs	35,311	60,103
Road tax	-	443,906
Provisions for amounts receivable (Note 9)	(244,849)	(397,418)
Other	4,592,056	2,744,411
Total:	**13,215,580**	**13,117,755**

24. Other operating income and costs

Other operating income and costs for the year that ended on 31 December were:

	2006 (LTL)	2005 (LTL)
Other operating income		
Profit from transfer of gas emissions permits	71,173,430	-
Income from custody of material resources	1,358,943	1,530,439
Dispenser servicing income	332,635	426,567
Lease income	124,224	122,137
Other income	127,809	117,400
Profit from disposal of current assets	158,723	22,338
Fines and late interest	46,496	90,986
Profit from disposal of non-current assets	2,068	-
	73,324,327	**2,309,867**
Other operating costs		
Costs of sale of greenhouse gas emissions allowances	(653,130)	-
Costs of custody of material resources	(1,367,219)	(1,522,411)
Depreciation costs related to the custody of material resources	(15,000)	(15,000)
Dispenser servicing costs	(324,026)	(491,592)
Other costs	(22,978)	(32,446)
	(2,382,353)	**(2,061,449)**

25. Financing costs

Financing costs for the year that ended on 31 December, were:

	2006 (Lt)	2005 (Lt)
Interest costs	583,379	988,924
Other financing costs	359,538	340,674
	942,917	1,329,598
Less: capitalized interest costs	(481,198)	(408,406)
Total:	**461,719**	**921,192**

26. Income tax expense

The income tax calculation on the basis of the income tax expense computed at the statutory rate of income tax (2006 – 19 %, 2005 –15 %):

	2006 (LTL)	%	2005 LTL	%
Profit (loss) before tax	31,173,600		20,546,966	
Tax at the statutory income tax rate (19%)	5,922,984	19%	3,082,045	15%
Tax effect of non-taxable income	(213,476)	(1%)	(1,136,771)	(5%)
Tax effect of costs not increasing the income tax	4,043,835	13%	2,904,975	14%
Adjustment of prior year income tax	(348,556)	(1%)	1,104,721	5%
Deferred income tax liability (reduction)	(3,238,408)	(10%)	(2,637,847)	(13%)
Income tax expense	**6,166,379**	**20%**	**3,317,123**	**16%**
Income tax expense comprised:				
Current year income tax expense	9,753,343	31%	4,850,249	24%
Adjustment of prior year income tax	(348,556)	(1%)	1,104,721	5%
Deferred income tax asset	(3,238,408)	(10%)	(2,637,847)	(13%)
Income tax expense	**6,166,379**	**(20%)**	**3,317,123**	**16%**

27. Deferred income tax

During the year that ended on 31 December the movement in deferred income tax were as follows:

Deferred income tax asset	Vacation reserve (LTL)
Balance as of 31 December 2004	**(140,250)**
Reduction of the non-current asset revaluation reserve due to the change in the deferred income tax rate	-
Recognized (assets) in income statement	(66,570)
Balance as of 31 December 2005	**(206,820)**
Recognized (assets) in income statement	(34,368)
Balance as of 31 December 2006	**(241,188)**

Deferred income tax liabilities	Accelerated depreciation (LTL)	Revalued assets (LTL)	Total (LTL)
Balance as of 31 December 2004	**4,029,161**	**123,132,136**	**127,161,297**
Reduction of the non-current asset revaluation reserve due to the change in the deferred income tax rate	-	909,639	909,639
Recognized (assets) in income statement	(177,946)	(2,393,331)	(2,571,277)
Balance as of 31 December 2005	**3,851,215**	**121,648,444**	**125,499,659**
Recognized (assets) in income statement	(173,625)	(3,030,415)	(3,204,040)
Balance as of 31 December 2006	**3,677,589**	**118,618,029**	**122,295,619**

28. Earnings per share

The earnings per share has been calculated on the basis of the weighted average number of ordinary shares during the year that ended on 31 December 2006 and 2005, which accounted for 140,711,469 shares.

As of 31 December 2006 and 2005 and during the year then ended the Company had not effected any options diluting the earnings per share.

29. Related party transactions

During the year that ended on 31 December 2006, transactions with State controlled entities and the balances were as follows:

State controlled entities	Amounts payable	Amounts receivable	Income generated	Costs incurred
AB "Lietuvos energija"	1,207,994	24,898,009	181,923,575	3,231,022
UAB "Elektrėnų komunalinis ūkis"	-	711,601	4,185,331	-
VšĮ Abromiškių rehabilitation hospital	-	32,264	197,452	-
AB "Rytų skirstomieji tinklai", Vilnius branch	-	-	-	56,274
AB "Lietuvos geležinkeliai"	-	-	-	1,801,994
Total:	**1,207,994**	**25,641,874**	**186,306,358**	**5,089,290**

The management of the Company maintains that all transactions with the State controlled entities were concluded under the same terms as transactions with the unrelated parties.

The average number of managers in the Company in 2006 and 2005 was 3. Benefits to the managers during 2006 amounted to LTL 517,678 (LTL 502,777 in 2005).

30. Conditional commitments (LTL)

The Company had concluded a long-term agreement concerning the purchase of Orimulsion (a future contract) with the Venezuelan company "Bitor Europe" valid until 2012. Under this agreement the Company has irrevocably undertaken to purchase a specified amount of fuel at an established price for USD 5.1m – 7.7m each year. The Company intends to terminate this Agreement in 2007.

General Manager
Pranas Noreika ________________________

Chief Financier
Rolandas Jankauskas ________________________

Annex 1

Company Name *AB LIETUVOS ELEKTRINĖ*

Adress *Elektrinės 21, Elektrėnai*

Approved

DRAFT PROFIT DISTRIBUTION

31 december 2006

LTL

No.	Items	2006	2005
I.	Retained earnings at the beginning of the year	0	-4,771,073
II.	Net profit of the year	25,007,221	17,229,843
III.	Retained earnings available for distribution at the end of the year	25,007,221	12,458,770
IV.	Shareholders' contributions against losses	0	0
V.	Transfer from the reserves	0	0
VI.	Distributable profit	25,007,221	12,458,770
VII.	**Profit distribution:**	**25,007,221**	**12,458,770**
VII.1.	transfer to legal reserves	1,251,440	861,492
VII.2.	transfer to other reserves	20,700,781	3,883,770
VII.3.	dividends	0	4,983,508
VII.4.	profit allocation to yearly payoffs:		
VII.4.1.	support	500,000	1,200,000
VII.4.2.	bonuses of employees and orher purpose	2,500,000	1,500,000
VII.5.	annual bonuses for the Board	55,000	30,000
VIII.	**Undistributed result at the end of the year**	**0**	**0**

General Director
Pranas Noreika

Chief Accountant
Rolandas Jankauskas

Annex 1

Disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market

The public company Lietuvos elektrinė, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

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

its turn, facilitate a more efficient and transparent management process.		
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The supervisory board of the Company is responsible for the supervision of the Company's Board and general director. The management Bord of the Company is responsible for the strategic management of the Company and other main functions of corporate government.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	Both the collegial suprevisory body – the supervisory board and the collegial management body - the management board are formed in the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	The supervisory board of the Company (also the management board insofar as it is posible) is formed and operates in the manner defined in Principles III and IV.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	The supervisory board of the Company consists of 5 members. The management board of the Company also consists of 5 members. Such number of members of the collegial management body is optimal considering the Company's operation and particularity.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The supervisory board of the Company shall be elected for the maximum period of 4 years. In accordance with the Law on Companies of the Republic of Lithuania the General meeting of shareholders is entitled to revoke all or individual members of the supervisory board before expiration of their tenure.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent	Yes	The chairman of the supervisory board is the representative of the main shareholder. The supervisory's chairman has not been the head of the Company, and his current offiice

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

[2] Definitions *'executive director'* and *'non-executive director'* are used in cases when a company has only one collegial body.

and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.		constitutes no obstacle to conduct independent and imparial supervision.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**[3]		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The supervisory board is elected in compliance with the procedure prescribed by the law on companies of the Republic of Lithuania. This mechanism ensure objective and fair monitoring of the company's. The member of the supervisory board can be a person with the right qualification. All members of the supervisory board are not the employees of the Company, and all of them are the representatives of the main shareholder - the State, represented by the Ministry of Economy of the Republic of Lithuania. Small shareholders can not be represented on supervisory board as their portion of the capital is only 3.54 %. However, the rights of the small shareholders' are protected by the main shareholder – the State.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information about the members of the supervisory bord (their qualification, positions taken) is disclosed by the Company in its periodical reports, also is included in the agenda of the general shareholders' meeting.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular	Yes	Before a member is appointed to the supervisory board, the information about candidate's qualification, positions in other companies is presented for the shareholders at the nominating

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

competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.		meeting. Information about the members to the supervisory board is disclosed by the Company in its periodical reports.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	The supervisory board of the Company is formed taking into consideration the Company's structure and activities. The members have a recent knowlegde and relevante experience for the proper performance of their tasks.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Present memebers of the supervisory board have experience of the companies' management. New members elected to the supervisory board of the Company are made familiar with the Company, its organization, activity specifics.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	There has been any independent member in the supervisory board of the Company. All supervisory bord's members are representative of the main shareholder. Nonetheless, all material conflicts of interest with a member of collegial body are resolved properly.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general	Yes	Independence of the members of the supervisory board of the Company evaluate in accordance with this recommendation. According to the criteria laid down in this paragraph, there has been any independent member in the supervisory board. All supervisory bord's members are representative of the main shareholder.

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

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

shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive		

directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	No	The Company has not defined the concept of independence.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The company has not applied so far the practice of evaluation of independence of the members of the supervisory board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	The company has not applied so far the practice of evaluation of independence of the members of the supervisory board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	Members of the supervisory board are not remunerated from the Company's funds for their work and participation in the meetings of the collegial body.

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

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting		
The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	The supervisiory board of the Company regularly makes recommendations to the managing bodies of the Company.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	To the best knowledge of the Company, all members of the supervisory board act in a good will in respect of the Company, comply with the intrests of the Company (not those of third parties) and take efforts to maintain independence in decision making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of the collegial body properly perform the functions delegated to them: actively participate at the sitting of the collegial body and devote sufficient time for the performance of their duties as the members of the supervisory board.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and	Yes	The collegial body treat all shareholders in a fair and unbiased manner.

[7] See Footnote 3.
[8] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.
[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.		
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	Transactions between the Company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the Company's management are concluded and approved in accordance with the Lithuanian legislation and the Articles of the Association.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	There have been no restrictions for the supervisory board to receive all information they need to perform their duties. The collegial body is independent in making decision important for the activities and strategy of the Company.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the	No	No nomination, remuneration and audit committees have been formed in the Company so far. Nonetheless, the members of the supervisory board have major influence in relevant aspects of the Company's activity, control the management board and head of the Company, offer the suggestions for their maded decisions.

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

collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	No committees have been formed in the Company so far.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	No committees have been formed in the Company so far.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	No committees have been formed in the Company so far.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited	No	No committees have been formed in the Company so far.

by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.		
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	No committees have been formed in the Company so far.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the	No	No committees have been formed in the Company so far.

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

conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the	No	Such practice has not been applied in the Company.

assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.		
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company fully complies with these recommendations.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[11].	Yes	Sittings of the collegial bodies if the Company are held at such intevals as are necessary to guarantee an uninterrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board are convented at least once in a quarter, and company's board meets at least once a month.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda	Yes	The Company fully complies with these recommendations. Both the metting of the supervisory's board and the meeting of the management's board goes according to the agenda approved in advance. Members of the collegial bodies are notified on the sitting in advance. Alongside with the notice about the meeting being convented, all the documents relevant to the issues on the agenda of the meeting are submitted to the members of the

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

of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.		collegial body.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The chairpersons of the collegial supervisory and management bodies of the Company positively co-operate by resolving the issues of the corporate governance.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The authorized capital of the Company consists of LTL 145 800 689 and is comprised of 145 800 689 ordinary shares. The par value of one share is LTL 1. All shareholders of the Company enjoy equal rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company fully complies with these recommendations.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[12] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	I accoradance with the Lithuanian legislation and the Articles of the Association, the transactions that are important to the Company such as transfer, investment, and pfledge of the company's assets or any other type of encumbrance are subject to approval of the management board.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the	Yes	The Company fully complies with these recommendations. Procedures of the convening and conducting a general shareholders' meeting ensure equal opportunities for the shareholders to effectively participate at the meetings, and do not violate their rights and interests. Notice of convening a general shareholders' meeting are published in the Lietuvos rytas daily. This Information is also disclosed through the Company News Service (CNS) of the Vilnius Stock Exchange.

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

agenda of the general shareholders' meeting and receive answers to them.		
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance[13]. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	At least 10 days before the general meeting, the draft resolution of the meeting is published through the Company News Service of the Vilnius Stoch Exchange. Before the meeting all shareholders are provided an opportunity to familiarize with all information about the draft resolution of the general meeting. The adopted resolutions are published also through the CNS. The information is published in Lithuanian and English languages. The Company has not so far the technical opportunity to disclose this information on the webside of the Company. The Company is going to do it in the future.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Shareholders of the Company may exercise their right to attend the general meeting of shareholders personally or trough a proxy. Also, the shareholders of the Company may vote by filling in common ballot-papers.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	Not applicable	Based on current practice of the Company, there has been no need so far to comply with this recommendation.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the	Yes	The Company fully complies with these recommendations. The most of the members of the collegial bodies are the pulic officials.

[13] The documents referred to above should be placed on the company's website in advance with due regard to a 10-day period before the general shareholders' meeting, determined in paragraph 7 of Article 26 of the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574).

conflict and value, where possible.		
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The members of the collegial bodies are farmiliarized with these provisions and must fully comply these recommendation.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	Such practice has not been apllied in the Company so far.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See commentary under item 8.1.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the	No	See commentary under item 8.1.

remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.		
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See commentary under item 8.1.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.		
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	See commentary under item 8.1.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.	No	See commentary under item 8.1.

8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	Such practice has not been apllied in the Company so far.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body		

responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company complies with all statutory requirements aimed at ensuring the rights of interest holders.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of		

certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	The Company fully complies with these recommendations.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with	Yes	The Company publishes information through the information system of the Vilnius Stock Exchange in Lithuanian and

regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.		English simultaneously. The Company, if possible, publishes its information prior to or after trade session on the Vilnius Stock Exchange. The Company does not publish in commentaries, interviews or otherwise any information, until such information is announced through the CNS of the Vilnius Stock Exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	The Company, if possible, publishes information through the information system of the Vilnius Stock Exchange in Lithuanian and English simultaneously. The Company has not so far the technical opportunity to disclose this information on the webside of the Company. The Company is going to do it in the future.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	No	The Company has not so far the technical opportunity to disclose this information on the webside of the Company. The Company is going to do it in the future.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An annual audit of the Company's financial stateements and report is conducted by an independet firm of auditors.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	Primarily a tender for selection of the firm of auditors is conducted in accordance with the requirements prescribed by laws regulating public procurements. Following the selection of the firm of auditors, a candidate firm of auditors is proposed to the general meeting of shareholders.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The firm of auditors has not provides any non-auditor services to the Company and has not received any fees thereon from the Company.

APSKAITOS IR KONTROLĖS UŽDAROJI AKCINĖ BENDROVĖ "AUDITAS"

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Lietuvos Elektrinė AB

We have audited the accompanying financial statements of Lietuvos Elektrinė AB as of 31 December 2006, comprising the balance sheet, income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The financial statements of Lietuvos Elektrinė AB have been drawn up in accordance with International Financial Reporting Standards as adopted for use in the EU.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair representation 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lietuvos Elektrinė AB as of 31 December 2006 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use in the EU.

Furthermore, we have read the Annual Report of Lietuvos Elektrinė AB for the year ended 31 December 2006. Our work with respect to the Annual Report was limited to checking it against the financial statements and excluded any management estimates, operational plans and forecasts. In the Annual Report 2006 presented by Lietuvos Elektrinė AB, we have not identified any material inconsistencies with the accompanying financial statements for the year ended 31 December 2006.

Rišardas Krinickis, Director & Auditor
Auditor's Certificate No. 000136

Alma Lizunova, Auditor
Auditor's Certificate No. 000152

2 April 2007
Vilnius

Accounting and audit company Auditas UAB
Gedimino pr. 24-11, LT-01103, Vilnius
Audit Firm Certificate No. 001234

AUDIT REPORT
on public company Lietuvos Elektrinė financial statments 2006

I. BACKGROUND

We have audited the financial statements of public company Lietuvos Elektrinė (hereinafter referred to as "Lietuvos Elektrinė AB" or "the entity") as of 31 December 2006 prepared according to International Financial Reporting Standards as adopted for use in the EU and the Annual Report 2006 accompanying these financial statements. Management is responsible for these financial statements and Annual Report. Our responsibility is to express an opinion on these financial statements based on our audit and to evaluate if information presented in the Annual Report is consisted with financial statements.

The Audit Report deals exclusively with such material matters as identified during our audit and discusses matters important for management or supervision of the entity as determined during audit. In planning and performing the audit of financial statements, we do not aim to identify all matters important for management or supervision of the entity and, usually, all such matters are not identified during audit.

This Audit Report is intended solely for the use of Lietuvos Elektrinė AB and its shareholders and may not be used otherwise. This Report may not be made available to any third party without prior written consent of the accounting and audit company Auditas UAB, except where the audit report must be made available as required by laws of the Republic of Lithuania.

II. SCOPE OF AUDIT

The financial year of Lietuvos Elektrinė AB is the calendar year. The financial statements cover the period from 1 January 2006 to 31 December 2006 inclusive. The financial statements include comparative data of 2 financial years (2005 and 2006). The financial statements of Lietuvos Elektrinė AB comprise a balance sheet, income statement, statement of changes in equity, cash flow statement and explanatory note.

We have performed our audit in accordance with International Standards on Auditing drawn up and approved by the International Federation of Accountants, our auditing practice and professional knowledge of auditor as well as auditing procedures chosen at the auditor's discretion.

III. DESCRIPTION OF REASONS FOR AUDITOR'S REPORT MODIFICATIONS

Based on our audit, we have stated our unconditional opinion about the entity's financial statements 2006 in our Independent Auditor's Report of 2 April 2007. We have also stated that we have not identified any material inconsistencies between the Annual Report 2006 and the accompanying financial statements for the year ended 31 December 2006.

IV. FINANCIAL STATEMENTS AND PROPOSED IMPROVEMENTS

The accounting service of Lietuvos Elektrinė AB is an independent structural unit (service) of the entity led by Chief Financial Officer. During the period concerned, Rolandas Jankauskas was Chief Financial Officer of Lietuvos Elektrinė AB.

Accounts of the entity are kept according to International Financial Reporting Standards (IFRS) and accounting policies of the entity. Transactions and events are divided into separate account groups according to the chart of accounts approved by the entity and prepared according to the provisions of IFRS and specific nature of operations. Chief Financial Officer organises the work of the accounting service in such a way as to ensure that transactions and events are recorded accurately and the correct amounts are entered in the relevant accounts of the period concerned to facilitate preparation of financial statements according to the existing legal acts.

Lietuvos Elektrinė AB financial statements 2006 were prepared in accordance with International Financial Reporting Standards as adopted for use in the EU and general accounting principles assuming that the activities will be based on the going concern principle. This assumption means that the entity is going to operate for unlimited duration and is not going to be liquidated. Our audit included an assessment if the entity management properly used the going concern assumption. Having evaluated financial and other factors affecting entity's ability to continue as a going concern, we can conclude that the going concern assumption is relevant.

The financial statements of Lietuvos Elektrinė AB are intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Financial statements are a structured representation of the financial position and performance of the entity. The purpose of financial statements is to provide information about the financial position of the entity, its financial performance and cash flows that is useful to a wide range of users of these financial statements in making economic decisions. Financial statements also indicate how management handled the relevant resources. To this end, Lietuvos Elektrinė AB financial statements contain the following information about the entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) other changes in equity; and

(f) cash flows.

This information, along with other information disclosed in the explanatory note, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

The balance sheet presents information about the entity's assets, liabilities and equity. Current and non-current assets as well as current and non-current liabilities of Lietuvos Elektrinė AB are divided into separate groups. Asset and liability items that combine amounts expected to be recovered or settled within twelve months of the balance sheet day are deemed to be current assets or liabilities. Asset and liability items that combine amounts expected to be recovered or settled more than twelve months after the balance sheet day are deemed to be non-current assets or liabilities. An asset is classified as a current asset when it meets any of the following criteria:

(a) it is expected to be realised in, or is held for sale or consumption in the normal course of the entity's operating cycle;

(b) it is held primarily for trading purposes;

(c) it is expected to be realised within twelve months of the balance sheet date; or

(d) it is cash or a cash equivalent (as defined in IAS 7 Cash Flow Statements), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

All other assets are classified as non-current.

The income statement presents information about the entity's income and expenses, including gains and losses.

The statement of changes in equity presents information about the profit or loss for the period concerned, each item of income and expense for the period that is recognised directly in equity, total income and expense as well as the effects of changes in accounting policies and corrections of errors recognised in accordance with IAS 8.

Information about cash flows is provided in the cash flow statement. Cash flows are divided into cash flows from core activities, investment activities and financial activities. Effects of changes in exchange rates on balances of cash and cash equivalents are presented separately.

In the explanatory note, the entity presents information about the basis of preparation of financial statements and specific accounting policies used as well as information which must be disclosed under IFRS and which is not presented in the balance sheet, income statement, statement of changes in equity or cash flow statement. In the explanatory note, the entity also discloses further division of headings in items presented in financial statements.

V. ASSESSMENT OF COMPLIANCE BETWEEN ANNUAL REPORT AND FINANCIAL STATEMENTS

We have read the Annual Report 2006 of Lietuvos Elektrinė AB accompanying the audited financial statements 2006. Management is responsible for the Annual Report and assumptions given in operational plans and forecasts. Our work with respect to the Annual Report was limited to checking it against annual financial statements and excluded any management estimates, operational plans and forecasts. We have also reviewed if the Annual Report was prepared as required by the Republic of Lithuania Law on Corporate Financial Statements. Based on our review, we can state that we have not identified any material inconsistencies between the entity's Annual Report 2006 and the accompanying financial statements for the year ended 31 December 2006. The Annual Report was prepared as required by the Republic of Lithuania Law on Corporate Financial Statements in all material respects.

VI. INTERNAL CONTROL

Management is responsible for effectiveness of the internal control system and detection of errors and fraud. Management's ability to properly organise operations of the entity, design an internal control system and help ensure its effectiveness minimises the risk of potential errors.

Internal control assessment is one of the factors affecting the scope of audit evidence to be collected for the purpose of making an objective report on the customer's financial statements. For audit purposes, the control system was assessed to the extent than enabled us to judge if the existing system can serve as a sufficient basis for preparation of financial statements.

The internal control system designed by the entity is sufficient as regards preparation of financial statements. We have no material comments on the internal control system of the entity.

Accounting and audit company Auditas UAB
Alma Lizunova, Auditor (Auditor's Certificate No. 000152)

2 April 2007
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