AB Kauno Energija

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 PREPARED
ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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Independent auditors' report to the shareholders of AB Kauno Energija

We have audited the accompanying 2006 financial statements of AB Kauno Energija, a public limited liability company registered in the Republic of Lithuania (the "Company"), and consolidated financial statements of AB Kauno Energija and subsidiaries ("the Group") which comprise the consolidated and separate balance sheet as of 31 December 2006, respectively consolidated and separate statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (jointly „financial statements").

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. 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; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Kauno Energija and the Group as of 31 December 2006, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have reviewed Consolidated Annual Report for the year 2006 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514

Jonas Akelis	Ramūnas Bartašius
Auditor's licence	Auditor's licence
No. 000003	No. 000362

The audit was completed on 5 March 2007.

Balance sheets

	Notes	Group As of 31 December 2006	Group As of 31 December 2005 (restated)	Company As of 31 December 2006	Company As of 31 December 2005 (restated)
ASSETS					
Non-current assets					
Intangible assets	4	2,114	1,863	2,089	1,863
Property, plant and equipment	5				
Land and buildings		29,489	30,291	27,791	30,291
Structures and machinery		101,940	93,173	101,875	93,173
Vehicles		1,215	1,292	1,135	1,292
Equipments and tools		5,892	5,504	5,790	5,504
Other property, plant and equipment		2,406	1,901	2,406	1,901
Construction in progress and prepayments		10,122	2,757	10,122	2,757
Total property, plant and equipment		151,064	134,918	149,119	134,918
Non-current financial assets					
Investments into subsidiaries	1	-	-	6,518	-
Non-current accounts receivable	7	1,441	2,654	1,441	2,654
Other financial assets		433	433	433	433
Total non-current financial assets		1,874	3,087	8,392	3,087
Total non-current assets		**155,052**	**139,868**	**159,600**	**139,868**
Current assets					
Inventories and prepayments					
Inventories	6	8,645	4,888	8,568	4,888
Prepayments		451	464	436	464
Total inventories and prepayments		9,096	5,352	9,004	5,352
Current accounts receivable	7				
Trade receivables		34,531	41,490	34,238	41,490
Other receivables		4,009	5,975	4,072	5,975
Total accounts receivable		38,540	47,465	38,310	47,465
Cash and cash equivalents	8	4,466	4,333	4,436	4,333
Total current assets		**52,102**	**57,150**	**51,750**	**57,150**
Total assets		**207,154**	**197,018**	**211,350**	**197,018**

(cont'd on the next page)

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

Balance sheets (cont'd)

	Notes	Group As of 31 December 2006	Group As of 31 December 2005	Company As of 31 December 2006	Company As of 31 December 2005
EQUITY AND LIABILITIES			(restated)		(restated)
Equity					
Share capital	1	118,310	118,310	118,310	118,310
Legal reserve	9	3,634	-	3,634	-
Retained earnings (deficit)					
Net profit for the current year		5,907	6,425	9,360	6,425
Net profit (loss) for the previous years		(1,671)	(4,462)	(1,671)	(4,462)
Total retained earnings (deficit)		4,236	1,963	7,689	1,963
Total equity		**126,180**	**120,273**	**129,633**	**120,273**
Liabilities					
Non-current liabilities					
Non-current borrowings	10	18,009	26,138	18,009	26,138
Other accounts payable		-	109	-	109
Deferred income tax liability	16	2,754	4,298	3,423	4,298
Grants (deferred income)	11	7,935	4,545	7,935	4,545
Total non-current liabilities		**28,698**	**35,090**	**29,367**	**35,090**
Current liabilities					
Current portion of non-current borrowings	10	7,692	7,771	7,692	7,771
Current borrowings	10	14,177	5,278	14,177	5,278
Trade payables		26,038	24,343	26,403	24,343
Advances received		873	746	873	746
Payroll-related liabilities		1,717	2,112	1,665	2,112
Taxes payable		948	864	876	864
Income tax payable		676	-	598	-
Other current liabilities		155	541	66	541
Total current liabilities		**52,276**	**41,655**	**52,350**	**41,655**
Total liabilities		**80,974**	**76,745**	**81,717**	**76,745**
Total equity and liabilities		**207,154**	**197,018**	**211,350**	**197,018**

General Manager	Aleksandras Sigitas Matelionis		5 March 2007
Chief Accountant	Violeta Staškūnienė		5 March 2007

Income statements

		Group		Company	
	Notes	**2006**	**2005**	**2006**	**2005**
			(restated)		(restated)
Operating income					
Income from sales	12	183,734	171,382	183,224	171,382
Other operating income	14	3,704	6,833	8,464	6,833
Total operating income		**187,438**	**178,215**	**191,688**	**178,215**
Operating expenses	13				
Fuel and heat acquired		(112,894)	(106,464)	(112,894)	(106,464)
Salaries and social security		(26,017)	(22,447)	(24,543)	(22,447)
Raw materials		(3,407)	(2,959)	(3,352)	(2,959)
Taxes other than income tax		(4,085)	(4,162)	(4,066)	(4,162)
Electricity		(3,804)	(3,512)	(3,804)	(3,512)
Depreciation and amortization		(18,560)	(17,908)	(18,497)	(17,908)
Repairs and maintenance		(755)	(1,521)	(755)	(1,521)
Water	13	(1,069)	(479)	(1,069)	(479)
Change in allowance for accounts receivable		847	(206)	847	(206)
Change in allowance for inventories		324	(279)	324	(279)
Maintenance of heating systems	1, 13	-	-	(1,995)	-
Petrašiūnai power plant operator expenses	1, 13	(967)	-	(967)	-
Other expenses		(11,413)	(8,467)	(10,942)	(8,467)
Other operating expenses	14	(1,198)	(6,517)	(1,491)	(6,517)
Total operating expenses		**(182,998)**	**(174,921)**	**(183,204)**	**(174,921)**
Profit from operations		**4,440**	**3,294**	**8,484**	**3,294**
Financial and investing activities	15				
Income from financial and investing activities		1,946	1,926	1,946	1,926
Expenses from financial and investing activities		(1,347)	2,212	(1,347)	2,212
Financial and investing activities, net		**599**	**4,138**	**599**	**4,138**
Profit before tax		**5,039**	**7,432**	**9,083**	**7,432**
Income tax	16	868	(1,007)	277	(1,007)
Net profit		**5,907**	**6,425**	**9,360**	**6,425**
Basic earnings per share (litas)	17	0.30	0.33		

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

General Manager	Aleksandras Sigitas Matelionis		5 March 2007
Chief Accountant	Violeta Staškūnienė		5 March 2007

Statements of changes in equity

Group	Notes	Share capital	Reserves	Retained earnings	Total
Balance as of 31 December 2004		**118,310**	**16,921**	**(18,286)**	**116,945**
Correction of an error	3	-	-	(3,097)	(3,097)
Balance as of 31 December 2004 (restated)		**118,310**	**16,921**	**(21,383)**	**113,848**
Offsetting the accrued losses		-	(16,921)	16,921	-
Net profit for the year		-	-	6,425	6,425
Balance as of 31 December 2005		**118,310**	**-**	**1,963**	**120,273**
Transferred to legal reserve of the Company	9	-	3,634	(3,634)	
Net profit for the year		-	-	5,907	5,907
Balance as of 31 December 2006		**118,310**	**3,634**	**4,236**	**126,180**

Company	Notes	Share capital	Reserves	Retained earnings	Total
Balance as of 31 December 2004		**118,310**	**16,921**	**(18,286)**	**116,945**
Correction of an error	3	-	-	(3,097)	(3,097)
Balance as of 31 December 2004 (restated)		**118,310**	**16,921**	**(21,383)**	**113,848**
Offsetting the accrued losses		-	(16,921)	16,921	
Net profit for the year		-	-	6,425	6,425
Balance as of 31 December 2005		**118,310**	**-**	**1,963**	**120,273**
Transferred to legal reserve of the Company	9	-	3,634	(3,634)	
Net profit for the year		-	-	9,360	9,360
Balance as of 31 December 2006		**118,310**	**3,634**	**7,689**	**129,633**

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

General Manager	Aleksandras Sigitas Matelionis		5 March 2007
Chief Accountant	Violeta Staškūnienė		5 March 2007

Cash flow statements

	Group		Company	
	2006	2005 (restated)	2006	2005 (restated)
Cash flows from (to) operating activities				
Net profit	5,907	6,425	9,360	6,425
Adjustments for non-cash items:				
Depreciation and amortization	19,610	18,497	19,548	18,497
Change in allowance for accounts receivable	(847)	206	(847)	206
Loss (gain) from sale and write-off of property, plant and equipment and shares	(2,344)	1,150	(2,344)	1,150
Change in allowance for inventories	(324)	279	(324)	279
Income tax expenses (income)	(868)	1,007	(277)	1,007
Gain from revaluation of non-current assets transferred to subsidiary	-	-	(4,462)	-
Accruals	(319)	(7,734)	(401)	(7,734)
Amortization of grants	(891)	(708)	(891)	(708)
Change in currency exchange rate		445	-	445
Interest expenses	1,315	2,080	1,315	2,080
Elimination of other financial and investing activity results	(1,914)	(1,418)	(1,914)	(1,418)
	19,325	20,229	18,763	20,229
Changes in working capital:				
(Increase) decrease in inventories	(3,433)	1,592	(3,356)	1,592
Decrease in prepayments	13	404	28	404
Decrease (increase) in trade receivables	7,806	(3,870)	8,099	(3,870)
Decrease (increase) in other receivables	2,014	(1,280)	1,951	(1,280)
(Decrease) in non-current trade payable	(71)	(92)	(71)	(92)
Increase in current trade payables and advances received	1,822	1,795	2,187	1,795
Increase (decrease) in payroll-related liabilities	6	(24)	(46)	(24)
Increase (decrease) in other liabilities to budget	84	(153)	12	(153)
(Decrease) in other liabilities	(172)	(2,482)	(141)	(2,482)
Net cash flows from operating activities	**27,394**	**16,119**	**27,426**	**16,119**

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

Cash flow statements (cont'd)

	Group		Company	
	2006	**2005**	**2006**	**2005**
Cash flows from (to) investing activities				
(Acquisition) of tangible and intangible assets	(32,347)	(24,404)	(32,314)	(24,404)
(Acquisition) of non-current investments	-	-	(10)	-
Proceeds from sale of tangible and intangible assets and investments	3,978	30,082	3,931	30,082
Penalty interest and fines (received)	1,761	1,873	1,761	1,873
Increase in cash flows from (to) non-current accounts receivable	337	206	299	206
Net cash flows (to) from investing activities	**(26,271)**	**7,757**	**(26,333)**	**7,757**
Cash flows from (to) financing activities				
Proceeds from loans	10,295	113,838	10,313	113,838
(Repayment) of loans	(9,604)	(135,876)	(9,622)	(135,876)
Interest (paid)	(1,649)	(2,416)	(1,649)	(2,416)
Financial lease (payments)	-	(33)	-	(33)
Grants received	-	941	-	941
Penalty interest and fines (paid)	(32)	(954)	(32)	(954)
Net cash flows from (to) financing activities	**(990)**	**(24,500)**	**(990)**	**(24,500)**
Net (decrease) increase in cash and cash equivalents	**133**	**(624)**	**103**	**(624)**
Cash and cash equivalents at the beginning of the year	**4,333**	**4,957**	**4,333**	**4,957**
Cash and cash equivalents at the end of the year	**4,466**	**4,333**	**4,436**	**4,333**

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

General Manager	Aleksandras Sigitas Matelionis		5 March 2007
Chief Accountant	Violeta Staškūnienė		5 March 2007

Notes to the financial statements

1 General information

AB Kauno Energija (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows:

Raudondvaris Rd. 84,
Kaunas,
Lithuania

The Company is involved in heat, electricity generation and distribution and maintenance of the heating and hot water systems. The Company was registered on 1 July 1997 after the reorganization of AB Lietuvos Energija. The Company's shares are traded on the Current List of the National Stock Exchange.

As of 31 December 2006 and 2005 the shareholders of the Company were as follows:

	Number of shares owned	Percentage of ownership
Municipality of Kaunas city	16,954,892	85.99
Municipality of Kaunas district	1,606,168	8.14
The municipality board of Jurbarkas district	443,810	2.25
Other minor shareholders	713,512	3.62
	19,718,382	100.00

All the shares with a par value of LTL 6 each are ordinary shares and were fully paid as of 31 December 2006 and 2005. The share capital did not change in 2006 and 2005. The Company did not hold its own shares in 2006 and 2005.

AB Kauno Energija consists of the Company's head office and the branch of Jurbarko Šilumos Tinklai.

The Company is also involved in maintenance of heating system. On 1 July 2006 on the basis of Kaunas Energy Services Department AB Kauno Energija established the subsidiary UAB Pastatų Priežiūros Paslaugos, the statutory capital of which was LTL 10 thousand. The main activity of the subsidiary is exploitation and maintenance of building heating network and heating consumption equipment, internal engineering networks and systems as well as building structures. After establishing of subsidiary the employees of the Company working at Kaunas Energy Services Department were dismissed from the Company and hired by UAB Pastatų Priežiūros Paslaugos. From 1 July 2006 the Company is contracting UAB Pastatų Priežiūros Paslaugos for permanent technical maintenance of heating and hot water supply systems.

On 30 August 2006 the Company increased the share capital of UAB Pastatų Priežiūros Paslaugos to LTL 6,518 thousand by a contribution in-kind. The net book value of the transferred assets amounted to LTL 2,046 thousand (Note 5). After evaluation of the transferred assets by independent valuators, the difference of LTL 4,462 thousand between the net book and fair value of the transferred assets was accounted for under other operating income caption in the Company's income statement (Note 14).

The Group consists of AB Kauno Energija and subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter referred to as „the Group"):

Company	Registration address	Share of the stock held by the Group	Cost of investment	Profit (loss) for the reporting period	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos	Savanoriai Ave. 347, Kaunas	100%	6,518	328	6,846	Maintenance of heating systems

Operations of AB Kauno Energija are regulated by the Heating Law No IX-1565 of 20 May 2003 of the Republic of Lithuania.

1 General information (cont'd)

According to the Heating Law of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Price Regulation Commission of Energy Resources (hereinafter "the Commission"). On 26 February 2004 the Commission granted the Company the heat distribution license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply.

In 2003 the Company sold part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacinė Elektrinė (KTE) and committed to purchase at least 80% of the annual demand of the integrated heating network in Kaunas from this company. The contract is valid for 15 years from the sales agreement date. The contract establishes that the purchase price of heat energy from KTE will not increase during the first 5 years from the date of signing the contract.

In April 2005 the Company sold the shares of UAB Naujasodžio Energijos Paslaugos (the cost is LTL 10 thousand) and the assets leased to this company with the net book value amounting to LTL 24,853 thousand. Profit and losses from this transaction were accounted for under other operating activities caption in the income statement (Note 25).

On 8 June 2006 AB Kauno Energija signed the agreement with UAB Energijos Sistemų Servisas regarding the operation of Petrašiūnai power plant and its assets located at Jėgainės St. 12, Kaunas. The contract is valid for a period of three years. Starting from 4 July 2006, UAB Energijos Sistemų Servisas started to provide operation services of Petrašiūnai power plant. The employees of the Company that used to work at a subdivision of Petrašiūnai power plant were dismissed from the Company and hired by UAB Energijos Sistemų Servisas. On 22 June 2006 the Company signed a lease agreement with UAB Kauno Termofikacinė Elektrinė regarding the equipment used in production of heating energy operated by UAB Energijos Sistemų Servisas. The contract is valid for a period of three years.

The Company's generation capacity includes a power plant in Petrašiūnai, 3 district boiler-houses in Kaunas integrated network, 8 regional boiler-houses in Kaunas and Marijampolė regions, 14 isolated network and 50 local gas burning boiler-houses.

The Company's total heat and electricity generation capacity is 678 MW and 8.75 MW, respectively, out of which 406 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. Total Company's power generation capacity is 686.75 MW.

In 2006, the average number of employees at the Group was 905 (905 employees in 2005). In 2006, the average number of employees at the Company was 780 (905 employees in 2005).

The Company's management approved these financial statements on 5 March 2007. The shareholders of the Company have a statutory right to either approve or not approve the financial statements after the Company's management approves these financial statements.

2 Accounting principles

2.1. Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Adoption of new and/or changed IFRSs and IFRIC interpretations

- IAS19 Amendment-Employee Benefits
- IAS 21 Amendment-The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments-Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group and the Company.

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

The Group and the Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

The Group and the Company expects that the adoption of the pronouncements listed above will have no significant impact on the Group's and the Company's financial statements in the period of initial application, except for IFRS 7 "Financial Instruments: Disclosures"; IAS 1 amendment Capital Disclosures and IFRS 8 "Operating Segments". The Group is still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

2.2. Measurement and presentation currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, litas (LTL).

Starting from 2 February 2002, Lithuanian litas is pegged to EUR at the rate of 3.4528 litas for 1 euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2 Accounting principles (cont'd)

2.3. Principles of consolidation

The consolidated financial statements of the Group include AB Kauno Energija and it's subsidiary. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement.

The purchase method of accounting is used for acquired businesses. The Company accounts for the acquired identifiable assets and liabilities of another company at their fair value at acquisition date. Difference between the acquisition cost and the fair value of the net assets at acquisition date is considered to be goodwill (negative goodwill). The goodwill is stated at cost, less impairment losses in the financial statements. Negative goodwill is recognised as income in the income statement for the reporting period. The goodwill is presented in the stand alone financial statements of the Company in the same line as the investment into the acquired company. In the consolidated financial statements goodwill related to consolidated subsidiaries is presented under the intangible assets caption.

The goodwill is not amortised, however the impairment loss is evaluated every year and is recognised as expenses for the period, when occurred. The impairment of goodwill for future periods is not reversed.

Companies acquired or sold during a year are included into the financial statements from the date of acquisition or until the date of sale.

Inter-company balances and transactions, including unrealised profits and losses, are eliminated on consolidation.

Consolidated financial statements are prepared on the basis of the same accounting principles applied to similar transactions and other events under similar circumstances.

In separate financial statements of the Company investments into subsidiaries and associated companies are accounted for applying the cost method.

2.4. Intangible assets

Intangible assets are initially measured at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives (3-4 years).

<u>Licenses</u>

Amounts paid for licenses are capitalized and then amortized over useful live period.

<u>Software</u>

The costs of acquisition of new software are capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortized over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits of performance of the existing software systems are recognized as an expense for the period when the restoration or maintenance work is carried out.

2 Accounting principles (cont'd)

2.5. Accounting for emission rights

The Group and the Company apply a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at nominal amount, as permitted by IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Liabilities for emissions are recognized only as emissions are made (i.e. provisions are never made on the basis of expected future emissions) and only when the reporting entity has made emissions in excess of the rights held.

When applying the net liability approach, the Group and the Company has chosen a system that measures deficits on the basis of an annual allocation of emission rights.

The outright sale of an emission right is recorded as a sale at the value of consideration received. Any difference between the fair value of the consideration received and its carrying amount is recorded as a gain or loss, irrespective of whether this creates an actual or an expected deficit of the allowances held. When a sale creates an actual deficit an additional liability is recognized with a charge to the income statement.

2.6. Property, plant and equipment

Property, plant and equipment of the Group and the Company are stated at cost less accumulated depreciation and impairment losses.

When assets are sold or retired, their cost, accumulated depreciation and impairment are eliminated from the accounting, and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to the income statement in the period the costs are incurred.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

	Years
Buildings	7 - 50
Machinery and equipment	5 - 60
Vehicles	3 - 10
Equipment and tools	2 - 20
Other non-current assets	2 - 30

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment.

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operation.

Assets not in use in the Company's operations are accounted for under the other property, plant and equipment caption. Some of these assets are leased for the value not less than its depreciation. Depreciation for assets that are not in use is calculated.

2.7. Financial instruments

According to IAS 39 "Financial Instruments: Recognition and Measurement" financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

2 Accounting principles (cont'd)

2.7. Financial instruments (cont'd)

Financial assets or financial liabilities designated at fair value through profit or loss

The category 'financial assets at fair value through profit or loss' includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2.8. Inventories

Inventories are valued at the lower of cost or net realizable value, after impairment evaluation for obsolete and slow moving items. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. Technological fuel is accounted for using the weighted average method. The cost of finished goods includes the applicable allocation of fixed and variable costs. Unrealizable inventory is written off.

2.9. Receivables and loans granted

Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at cost less impairment, and non-current receivables and loans granted – at amortized cost, less impairment.

2.10. Cash and cash equivalents

Cash includes cash on hand, cash with banks and cash in transit. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash with banks, cash in transit, deposits held at call with banks, and other short-term highly liquid investments.

2 Accounting principles (cont'd)

2.11. Borrowings (loans)

Borrowing costs are expensed as incurred.

Borrowings are initially recognized at fair value of the proceeds received, less the costs of transaction. They are subsequently carried at amortized cost, the difference between net proceeds and redemption value being recognized in the net profit or loss over the period of the borrowings.

2.12. Finance and operating leases – the Group and the Company as lessor

Finance lease

The Group and the Company recognizes lease receivables at the value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating lease

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in the statement of income on a straight-line basis over the lease term as other income. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for leased assets is consistent with the lessor's depreciation policy for similar assets, and depreciation is calculated in accordance with the accounting policies, used for the property, plant and equipment.

2.13. Operating leases – the Group and the Company as lessee

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognized as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognized immediately. If the sales price is lower than the fair value, any profit or loss is recognized immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and amortized in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortized over a period, during which the assets are expected to be operated.

2.14. Grants (deferred income)

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognized in the financial statements as used in parts according to the depreciation of the assets associated with this grant. In the income statement, a relevant expense account is reduced by the amount of grant amortization.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.

The balance of unutilized grants is shown in the caption "Grants (deferred income)" in the balance sheet.

2 Accounting principles (cont'd)

2.15. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

In 2005 standard income tax rate applied to the Company was 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies have to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15 %.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and (or) derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and (or) derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets have been recognized in the balance sheet to the extent the management believes it will be realized in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realized, this part of the deferred tax asset is not recognized in the financial statements.

2.16. Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of VAT and discounts.

Every month the Group and the Company issues the bills for the heat energy and water heating services to residents and industrial users of heat energy, delivered until the end of the current month. The bills are issued based on monthly readings of heat energy meters, which at the beginning of the following (after the current) month are collected by the employees of the Group and the Company.

Income from overdue interest is recognized upon receipt.

2.17. Expense recognition

Expenses are recognized on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted for as the amount paid or due, excluding VAT. In those cases when a long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

2.18. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

2 Accounting principles (cont'd)

2.19. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each balance sheet date.

For financial assets carried at amortized cost, whenever it is probable that the Group and the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognized in the income statement. The reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognized to the extent it does not exceed the amortized cost that would have been had the impairment not been recognized.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. Reversal is accounted for in the same caption of income statement as impairment losses. For evaluation of impairment of assets the entire Company is considered one cash generating unit.

2.20. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation, as well as identification of business segments. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.21. Segments

The activities of the Group and the Company are organized in one major business and geographical segment.

2.22. Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow or economic benefits is probable.

2.23. Subsequent events

Post-balance sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

2.24. Offsetting and comparative figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain IFRS specifically require such set-off.

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year.

3 Correction of an error

While preparing the financial statement for the previous reporting periods the Company did not evaluate all temporary differences which create deferred income tax asset and liabilities. Therefore when preparing the Group's and the Company's financial statements for 2006 this correction was accounted for respectively, i.e. by correcting the comparative information of 2005 and previous reporting periods.

Group and Company	As of 31 December 2005 (as presented before)	Effect of correction	As of 31 December 2005 (restated)
Net profit (loss) for the previous years (balance sheet caption)	(1,365)	(3,097)*	(4,462)
Deferred income tax liability (balance sheet caption)	1,278	3,020	4,298
Income tax (income statement caption)	(1,084)	77	(1,007)

* Change in this line is as of 31 December 2004

The correction of an error had no material impact on the earnings per share of the Group and the Company.

4 Intangible assets

Movements of intangible assets for the current and prior reporting periods are as follows:

	Group Concessions, patents, licenses	Company Concessions, patents, licenses
Cost:		
Balance as of 31 December 2004	2,247	2,247
Additions	754	754
Disposals and write-offs	(69)	(69)
Reclassifications	262	262
Balance as of 31 December 2005	3,194	3,194
Additions	869	842
Balance as of 31 December 2006	4,063	4,036
Amortization:		
Balance as of 31 December 2004	812	812
Charge for the year	585	585
Disposals and write-offs	(66)	(66)
Balance as of 31 December 2005	1,331	1,331
Charge for the year	618	616
Balance as of 31 December 2006	1,949	1,947
Net book value as of 31 December 2006	**2,114**	**2,089**
Net book value as of 31 December 2005	**1,863**	**1,863**
Net book value as of 31 December 2004	**1,435**	**1,435**

Amortization expenses of intangible assets are included in the depreciation and amortization expenses caption in the income statement.

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 707 thousand as of 31 December 2006 (LTL 639 thousand as of 31 December 2005) was fully amortized but still in use.

5 Property, plant and equipment

Movement of property, plant and equipment for the reporting period is as follows:

Group	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost:							
Balance as of 31 December 2004	50,935	283,360	7,641	17,914	7,014	5,925	372,789
Additions	605	13,334	497	972	-	8,242	23,650
Disposals and write-offs	(961)	(15,716)	(3,969)	(11,116)	(1,087)	(1,486)	(34,335)
Reclassifications	2,097	6,348	326	1,006	(115)	(9,924)	(262)
Balance as of 31 December 2005	52,676	287,326	4,495	8,776	5,812	2,757	361,842
Additions	499	16,997	358	919	1	16,986	35,760
Disposals and write-offs	(685)	(6,872)	(693)	(123)	(104)	(190)	(8,667)
Reclassifications	(116)	6,019	(95)	942	2,681	(9,431)	-
Balance as of 31 December 2006	52,374	303,470	4,065	10,514	8,390	10,122	388,935
Accumulated depreciation and impairment losses:							
Balance as of 31 December 2004	21,790	186,445	5,851	8,883	4,474	-	227,443
Charge for the year	1,083	15,123	375	1,133	198	-	17,912
Disposals and write-offs	(489)	(5,617)	(3,195)	(6,772)	(785)	-	(16,858)
Impairment	-	(1,573)	-	-	-	-	(1,573)
Reclassifications	1	(225)	172	28	24	-	-
Balance as of 31 December 2005	22,385	194,153	3,203	3,272	3,911	-	226,924
Charge for the year	1,092	15,864	391	1,468	177	-	18,992
Disposals and write-offs	(342)	(6,793)	(692)	(120)	(98)	-	(8,045)
Reclassifications	(250)	(1,694)	(52)	2	1,994	-	-
Balance as of 31 December 2006	22,885	201,530	2,850	4,622	5,984	-	237,871
Net book value as of 31 December 2006	**29,489**	**101,940**	**1,215**	**5,892**	**2,406**	**10,122**	**151,064**
Net book value as of 31 December 2005	**30,291**	**93,173**	**1,292**	**5,504**	**1,901**	**2,757**	**134,918**
Net book value as of 31 December 2004	**29,145**	**96,915**	**1,790**	**9,031**	**2,540**	**5,925**	**145,346**

5 Property, plant and equipment (cont'd)

Company	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Other property, plant and equipment	Construction in progress and prepayments	Total
Cost:							
Balance as of 31 December 2004	50,935	283,360	7,641	17,914	7,014	5,925	372,789
Additions	605	13,334	497	972	-	8,242	23,650
Disposals and write-offs	(961)	(15,716)	(3,969)	(11,116)	(1,087)	(1,486)	(34,335)
Reclassifications	2,097	6,348	326	1,006	(115)	(9,924)	(262)
Balance as of 31 December 2005	52,676	287,326	4,495	8,776	5,812	2,757	361,842
Additions	499	16,997	359	911	1	16,986	35,753
Disposals and write-offs	(684)	(6,825)	(693)	(123)	(104)	(190)	(8,619)
Assets transferred to subsidiary	(2,543)	(595)	(433)	(212)	(6)	-	(3,789)
Reclassifications	(116)	6,018	(95)	942	2,682	(9,431)	-
Balance as of 31 December 2006	49,832	302,921	3,633	10,294	8,385	10,122	385,187
Accumulated depreciation and impairment:							
Balance as of 31 December2004	21,790	186,445	5,851	8,883	4,474	-	227,443
Charge for the year	1,083	15,123	375	1,133	198	-	17,912
Disposals and write-offs	(489)	(5,617)	(3,195)	(6,772)	(785)	-	(16,858)
Impairment	-	(1,573)	-	-	-	-	(1,573)
Reclassifications	1	(225)	172	28	24	-	-
Balance as of 31 December 2005	22,385	194,153	3,203	3,272	3,911	-	226,924
Charge for the year	1,068	15,851	381	1,455	177	-	18,932
Disposals and write-offs	(342)	(6,793)	(692)	(120)	(98)	-	(8,045)
Accumulated depreciation of assets transferred to subsidiary	(820)	(471)	(342)	(105)	(5)	-	(1,743)
Reclassifications	(250)	(1,694)	(52)	2	1,994		
Balance as of 31 December 2006	22,041	201,046	2,498	4,504	5,979	-	236,068
Net book value as of 31 December 2006	**27,791**	**101,875**	**1,135**	**5,790**	**2,406**	**10,122**	**149,119**
Net book value as of 31 December 2005	**30,291**	**93,173**	**1,292**	**5,504**	**1,901**	**2,757**	**134,918**
Net book value as of 31 December 2004	**29,145**	**96,915**	**1,790**	**9,031**	**2,540**	**5,925**	**145,346**

5 Property, plant and equipment (cont'd)

On 6 April 2005 the Company sold property, plant and equipment rented to UAB Naujasodžio Energijos Paslaugos. As of December 2004 buildings rented to UAB Naujasodžio Energijos Paslaugos 2005 were accounted for under investment property caption and on 1 January 2005 were transferred to non-current assets held for sale. In April 2005 these assets were sold (Note 1).

The depreciation charge of the Group's and Company's property and property, plant and equipment for 2006 amounts to LTL 18,992 thousand and LTL 18,932 thousand, respectively (LTL 17,912 thousand in the year 2005 for the Group and the Company). The amounts of LTL 18,833 thousand and LTL 18,772 thousand for the year 2006 (Group's and Company's - LTL 17,612 thousand for the year 2005), respectively, were included into operating expenses in the Group's and the Company's income statement. The remaining amounts were included into other expenses caption.

Part of the property, plant and equipment of the Group and the Company with acquisition cost of LTL 21,614 thousand and LTL 21,014 thousand, respectively, were fully depreciated as of 31 December 2006 (for the Group and the Company LTL 5,559 thousand as of 31 December 2005) but were still in active use.

As of 31 December 2006 the major part of the Group' s and Company's construction in progress consisted of reconstruction works of heating network and heating network located in Karaliaus Mindaugo Str. in Kaunas received for free, which as of 31 December 2006 were not started to be used.

As of 31 December 2006 property, plant and equipment of the Group and the Company with the net book value of LTL 64,017 thousand (LTL 50.5 million as of 31 December 2005) was pledged to banks as a collateral for loans (Note 10).

6 Inventories

	Group		Company	
	2006	2005	2006	2005
Spare parts	1,922	2,110	1,922	2,110
Technological fuel	5,904	1,852	5,904	1,852
Materials	1,683	2,114	1,606	2,114
Total:	9,509	6,076	9,432	6,076
Realization allowance at the end of the year	(864)	(1,188)	(864)	(1,188)
	8,645	4,888	8,568	4,888

The acquisition cost of the Group's and the Company's slow moving inventories accounted for at net realizable value as of 31 December 2006 amounted to LTL 864 thousand (LTL 1,188 thousand as of 31 December 2005).

Changes in the realization allowance for inventories for the year 2006 and 2005 was included into change of realization allowance caption in the Group's and the Company's income statement.

7 Trade receivables

	Group		Company	
	2006	2005	2006	2005
Trade receivables, gross	56,901	64,869	56,608	64,869
Less: realization allowance for doubtful receivables	(22,370)	(23,379)	(22,370)	(23,379)
Trade receivables, net	34,531	41,490	34,238	41,490

Change in realization allowance for doubtful receivables in 2006 and 2005 is included into the change in realization allowance for doubtful receivables caption in the Group's and the Company's income statement.

7 Trade receivables (cont'd)

In 2006 the Group and the Company wrote off LTL 480 thousand (in 2005 – LTL 431 thousand) of bad debts, for which the realization allowance was recorded in the previous reporting periods. In 2006 the Group and the Company also recovered LTL 315 thousand of bad debts, which were written off in the previous periods.

Other receivables of the Group and the Company as of 31 December 2006 amounted to LTL 4,009 thousand and LTL 4,072 thousand, respectively (as of 31 December 2005 – LTL 5,975 thousand for the Group and the Company). As of 31 December 2006 the major part of other receivables consist of the current portion of long-term receivables from sold non-current assets to UAB Nepriklausomos Energijos Paslaugos and UAB Ežerėlio Durpės and VAT receivable.

8 Cash and cash equivalents

	Group		Company	
	2006	2005	2006	2005
Cash at bank	1,090	1,293	1,060	1,293
Cash on hand	17	10	17	10
Cash in transit	3,359	3,030	3,359	3,030
	4,466	4,333	4,436	4,333

The Group's and the Company's accounts in national currency in banks amounting to LTL 881 thousand are pledged as collateral to for the loans (Note 10).

9 Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit calculated in accordance with IFRS are compulsory until the reserve reaches 10% of the share capital. On 28 April 2006 based on the decision of the Company's shareholders LTL 3,634 thousand was transferred to the legal reserve.

During the distribution of profit for 2006 at least LTL 468 thousand of the net result should be transferred to the legal reserve. This amount might change based on the final decision of the Company's shareholders, which will be taken after these financial statements are prepared.

10 Borrowings

	Group		Company	
	As of 31 December 2006	As of 31 December 2005	As of 31 December 2006	As of 31 December 2005
Non-current borrowings				
Non-current borrowings	18,009	26,138	18,009	26,138
Current borrowings				
Current portion of non-current borrowings	7,692	7,771	7,692	7,771
Current borrowings (including credit line)	14,177	5,278	14,177	5,278
	21,869	13,049	21,869	13,049
	39,878	39,187	39,878	39,187

10 Borrowings (cont'd)

On 1 August 2005 the Company signed a long-term loan agreement with AB Bankas Hansabankas for the amount of LTL 5,000 thousand. The maturity date of the last portion of the loan is 1 August 2012. As of 31 December 2006 the outstanding balance of the loan amounted to LTL 4,584 thousand (as of 31 December 2005 – LTL 4,984 thousand), of which LTL 832 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month VILIBOR plus 0.77% interest rate.

On 23 August 2005 the Company signed a long-term loan agreement with AB SEB Vilniaus Bankas for the amount of LTL 30,300 thousand (EUR 8,776 thousand). The maturity date of the last portion of the loan is 31 December 2009. As of 31 December 2006 the outstanding balance of the loan amounted to LTL 20,581 thousand (EUR 5,961 thousand) (as of 31 December 2005 – LTL 27,442 thousand (EUR 7,948 thousand)), of which LTL 6,860 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month VILIBOR plus 0.4% interest rate. On 24 August 2005 this loan was used to refinance the loan from AB Turto Bankas, the balance of which at the date of the refinancing amounted to LTL 30,001 thousand.

On 1 December 2006 the Company signed a long-term agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2,090 thousand. The maturity date of the last portion of the loan is 31 October 2015. As of 31 December 2006 the outstanding balance of the loan amounted to LTL 536 thousand. The loan bears 3-month VILIBOR plus 0.45% interest rate.

On 21 December 2006 the Company signed a long-term agreement with AB SEB Vilniaus Bankas for the amount of LTL 7,108 thousand. The maturity date of the last portion of the loan is 30 November 2016. As of 31 December 2006 the Company didn't utilize this loan. The loan bears 6-month EURLIBOR plus 0.4% interest rate.

As of 31 December 2006 the Company's balances of used credit line from AB SEB Vilniaus bankas with the maturity of 23 May 2007 was LTL 4,417 thousand. The credit line bears 6-month VILIBOR plus 0.6% interest rate.

As of 31 December 2006 the Company's balance of used overdraft from AB bankas DnB NORD Lietuva with the maturity date of 31 May 2006 was LTL 9,760 thousand. The overdraft bears 6-month VILIBOR plus 0.6% interest rate.

Terms of repayment of non-current borrowings are as follows (all loans are with variable interest rate):

	Group As of 31 December 2006	Company As of 31 December 2006
2007	7,692	7,692
2008	7,919	7,919
2009	7,965	7,965
2010	867	867
2011	832	832
2012	426	426
	25,701	25,701

Weighted average effective interest rates of borrowings outstanding at the year-end are as follows:

	Group		Company	
	2006	2005	2006	2005
Current borrowings	4.4	4.1	4.4	4.1
Non-current borrowings	3.9	2.9	3.9	2.9

10 Borrowings (cont'd)

Parts of borrowings at the end of the year in national and foreign currencies are as follows:

	Group		Company	
	2006	2005	2006	2005
Currency of the loan				
EUR	20,581	27,442	20,581	27,442
LTL	19,297	11,745	19,297	11,745
	39,878	39,187	39,878	39,187

The property, plant and equipment (Note 5) and accounts at banks (Note 8) of the Group and the Company were pledged as collateral for the loans.

11 Grants (deferred income)

	Group		Company	
	2006	2005	2006	2005
Balance at the beginning of the reporting period	**4,545**	**4,312**	**4,545**	**4,312**
Received during the year				
Non-current assets received for free	4,281	426	4,281	426
Lithuanian Environmental Investment Fund	-	345	-	345
Equipment provided by UAB Omnitel	-	170	-	170
	4,281	941	4,281	941
Amortisation and write-offs	(891)	(708)	(891)	(708)
Balance at the end of the reporting period	**7,935**	**4,545**	**7,935**	**4,545**

In 2006 the Group and the Company received for free the heating network located in Karaliaus Mindaugo Str. in Kaunas, which value at the date of transfer amounted to LTL 4,281 thousand.

12 Income

The Group's and the Company's activities are heat energy supply, electricity production, maintenance of heating and hot water supply systems, electricity production and other activities. These activities are inter-related, consequently for management purposes the Group's and the Company's activities are organized as one main segment – heat energy supply. The Company's sales by activities are stated below:

	Group		Company	
Income	2006	2005	2006	2005
Heat energy	166,172	161,532	166,172	161,532
Maintenance of the heating and hot water supply systems of buildings	7,414	8,125	6,893	8,125
Electricity energy	2,005	1,725	2,005	1,725
Revenue from sale of emission rights	8,154	-	8,154	-
	183,745	171,382	183,224	171,382

13 Operating expenses

After the Company established the subsidiary UAB Pastatų Priežiūros Paslaugos on 1 July 2006, expenses of maintenance of heating and hot water systems are accounted for separately in the income statement. The Company had performed these services itself until the establishment of the subsidiary and the expenses were accounted for in the income statement based on their nature (see also Note 1).

After signing an agreement on 8 June 2006 concerning maintenance of Petrašiūnai Power Plant and assets attributed to it, these expenses are accounted for separately in the Group's and the Company's income statement. Prior to the agreement, expenses were accounted for based on the nature in the income statement in the Group's and the Company's financial statements (see also Note 1). Also water consumption of the Group and the Company increased in 2006, as prior to the above mentioned maintenance agreement the Company was preparing the intake water by itself. After signing the agreement, the Company receives water supply from UAB Energijos Sistemų Servisas.

14 Other activities

	Group		Company	
	2006	**2005**	**2006**	**2005**
Income from other activities				
Gain from sale of non-current assets	2,346	3,946	2,346	3,946
Revaluation of the assets transferred to subsidiary (Note 1)	-	-	4,462	-
Services provided by the Company	897	2,407	1,161	2,407
Materials sold	373	379	407	379
Other	88	101	88	101
	3,704	6,833	8,464	6,833
Expenses from other operating activities				
Loss from sale of non-current assets and shares	(4)	(4,875)	(4)	(4,875)
Cost of services provided by the Company	(627)	(1,175)	(891)	(1,175)
Cost of materials sold	(201)	(356)	(248)	(356)
Other	(370)	(111)	(348)	(111)
	(1,202)	(6,517)	(1,491)	(6,517)
	2,502	316	6,973	316

In 2005 loss from sale of non-current assets and shares is mainly related to the sale transaction of UAB Naujasodžio Energijos Paslaugos shares and the non-current assets rented out to them (refer to Note 1).

15 Financial and investment activities, net

	Group		Company	
	2006	2005	2006	2005
Income from financial and investment activities				
Penalty interest and fines	1,761	1,873	1,761	1,873
Interest income	8	4	8	4
Foreign currency exchange gain	2	-	2	-
Other financial income	175	49	175	49
	1,946	1,926	1,946	1,926
Expenses of financial and investment activities				
Penalty interest and fines	(32)	5,359	(32)	5,359
Interest expenses	(1,315)	(2,080)	(1,315)	(2,080)
Foreign currency exchange loss	-	(445)	-	(445)
Other financial expenses	-	(622)	-	(622)
	(1,347)	2,212	(1,347)	2,212
	599	4,138	599	4,138

16 Income tax

	Group		Company	
	2006	2005	2006	2005
Components of the income tax expense				
Current income tax for the reporting year	676	-	598	-
Deferred income tax expenses (income)	(1,544)	1,007	(875)	1,007
Income tax expenses recorded in income statement	(868)	1,007	(277)	1,007

Deferred income tax asset and liability was accounted for using the rates of 19%, 18% and 15% (refer to Note 2.15):

Deferred income tax consist of:

	Group		Company	
	2006	2005	2006	2005
		(restated)		(restated)
Deferred income tax asset				
Tax loss carry forward	-	841	-	841
Accounts receivable	4,194	4,698	4,194	4,698
Allowance for inventories	130	178	130	178
Differences of depreciation	37	23	37	23
Accruals	54	90	54	90
Deferred income tax asset before valuation allowance	4,415	5,830	4,415	5,830
Less: valuation allowance	(3,523)	(5,740)	(3,523)	(5,740)
Deferred income tax asset, net	892	90	892	90

16 Income tax (cont'd)

	Group		Company	
	2006	2005	2006	2005
		(restated)		(restated)
Deferred income tax liability				
Investments incentive	(3,082)	(4,103)	(3,082)	(4,103)
Revaluation of the assets transferred to subsidiary	-	-	(669)	-
Differences of depreciation	(564)	(285)	(564)	(285)
Total deferred income tax liabilities	(3,646)	(4,388)	(4,315)	(4,388)
Deferred income tax, net	(2,754)	(4,298)	(3,423)	(4,298)

In 2006 the Company corrected comparative deferred tax information (Note 3).

The recorded income tax for the year can be reconciled with the theoretical calculated income tax, which is computed by applying the standard income tax rate to profit before taxes as follows:

	Group		Company	
	2006	2005	2006	2005
Income tax (expenses) calculated at statutory rate	(957)	(1,115)	(1,725)	(1,115)
Change in deferred income tax due to change in tax rate	(223)	(398)	(46)	(398)
Non-deductible expenses	(169)	1,148	(169)	1,148
Change in valuation allowance of the deferred tax	2,217	(307)	2,217	(307)
Adjustments of income tax for the previous years	-	(335)	-	(335)
Income tax expenses accounted in income statement	868	(1,007)	277	(1,007)

17 Basic earnings per share

Calculations of the basic earnings per share of the Group are presented below:

	Group	
	2006	2005
Net profit	5,907	6,425
Number of shares (thousand), opening balance	19,718	19,718
Number of shares (thousand), closing balance	19,718	19,718
Average number of shares (thousand)	19,718	19,718
Basic earnings per share (Litas)	0.30	0.33

18 Financial assets and liabilities and risk management

Credit risk

The Group and the Company does not have any credit concentration risk because it works with a large number of customers.

The Group and the Company does not guarantee obligations of the other parties.

The Group and the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognized at the balance sheet date.

Interest rate risk

All of the Group's and the Company's borrowings are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2006 the Group and the Company did not have financial instruments for managing the interest rate risk.

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity and quick ratios as of 31 December 2006 were 0.99 and 0.83, respectively (1.37 and 1.25 as of 31 December 2005). The Company's liquidity and quick ratios as of 31 December 2006 were 0.99 and 0.82, respectively (1.37 and 1.25 as of 31 December 2005).

Foreign currency risk

Only insignificant part of the Group's and the Company's transactions and respective monetary assets and liabilities is expressed in other currency than litas or euro (to which the litas is pegged) as of 31 December 2006 and 2005. Therefore the Company does not face significant foreign exchange risk.

Fair value of financial instruments

The Company's principal financial instruments accounted for at amortised cost are trade and other current and non-current receivables, trade and other payables, long-term and short-term borrowings. The net book value of these amounts is similar to their fair value.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade and other payables, long-term and short-term borrowings approximates fair value.
(b) The fair value of trade and other payables, long-term and short-term borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

19 Related parties transactions

The parties are considered related when one party has the possibility to control the other or have significant influence over the other party in making financial and operating decisions.

In 2005 and 2006 there were no significant transactions with the other companies owned by municipality of Kaunas city except for the purchases or sales of the utility services. The services provided to the companies owned by the municipality of Kaunas City were executed at market prices.

In 2006 the related party of the Company was UAB Pastatų Priežiūros Paslaugos. As of 31 December 2005 the Company did not have related parties.

In 2006 Company's transactions with the related party and the balances at the end of the year were the follows:

2006	Purchases	Sales	Receivables	Payables
UAB Pastatų Priežiūros Paslaugos	2,042	358	78	447

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 520 thousand and LTL 419 thousand in 2006, respectively (Company's LTL 320 thousand in 2005). The management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

JSC „KAUNO ENERGIJA“
CONSOLIDATED ANNUAL REPORT OF THE YEAR 2006

I. General data on the group of companies

JSC „Kauno energija“ prepares company‘s and consolidated group financial accountability. The group (further – Group) consists of JSC „Kauno energija“ and daughter company – closed-end company „Pastatų priežiūros paslaugos“ in which company directly controls 100 percent of the managed shares.

Consolidated annual report of the Group is prepared for the year 2006.

The main data about the Company:

Name of the company:	Joint stock company „Kauno energija“
Legal-organizational form:	Joint stock company
Address:	Raudondvario pl. 84, 47179 Kaunas - 21
Code of the legal person:	235014830
Register manager:	State enterprise Register centre Kaunas subsidiary
VAT code:	LT350148314
Authorized capital:	118310292 LTL and is divided into 19718382 ordinary registered 6 LTL nominal value shares.

The main data about the daughter company:

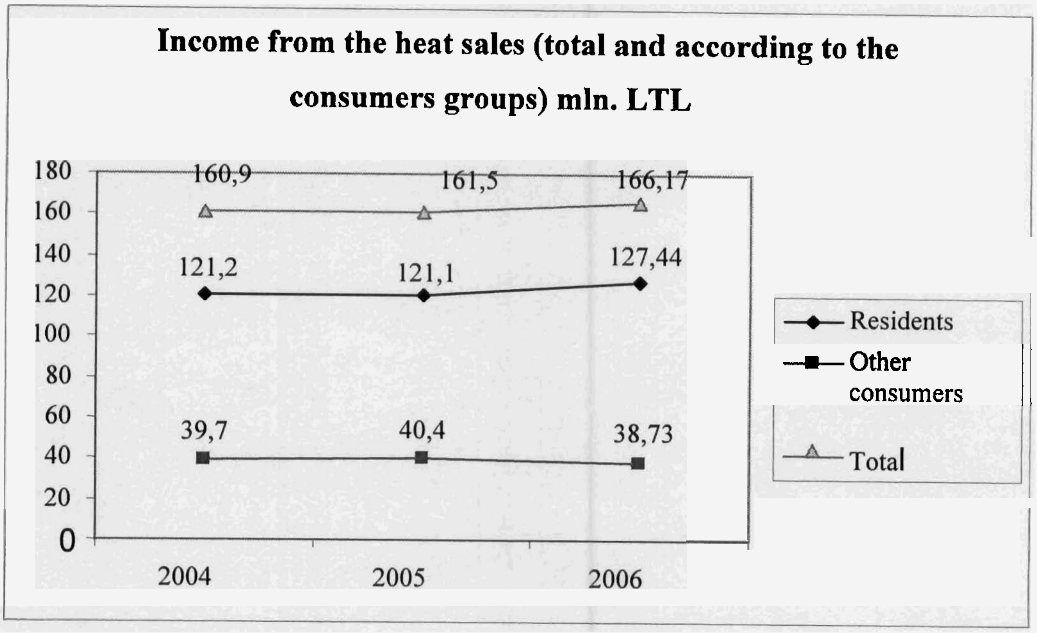
Name of the company:	Closed-end company „Pastatų priežiūros paslaugos“
Legal-organizational form:	Closed-end company
Address:	Savanorių pr. 347, 49423 Kaunas - 43
Code of the legal person:	300580563
Register manager:	State enterprise Register centre Kaunas subsidiary
VAT code:	LT00002506015
Authorized capital:	6518000 LTL and is divided into 65180 ordinary registered 100 LTL nominal value shares.

II. Objective review on the group of companies state, activity implementation and development, the description of risks and indeterminations with which encounters

JSC „Kauno energija“ is the patronized company of the Group. Company produces and sells heat energy to consumers in Kaunas city and in part of Kaunas, Marijampolė and Jurbarkas administrative districts. Also in small amount it produces electric energy in Kaunas city and Kaunas disctrict. The Group and the Company carries out supervision of lodging heat and hot water supply systems, heating points equipment, carries out the supervision of building constructions and elements, cold water supply, leakage elimination and drenage systems, electricity energy supply system and maintenance works, provides services to natural and legal persons in the supervision of heat economy. The Group and the Company licensed activity carries out by having certain licences.

In the year 2006 the Group covered 90 percent of the heat supply market in Kaunas city, 95 percent in Jurbarkas city and 59 percent of lodging heat and hot water supply systems, heating points equipment supervision market in the Kaunas city. To the Company‘s heat supply integrated and local network 2016 companies and 14407 thousand apartments are connected.

Heat consumers conditionally are grouped into consumers groups: residents and other consumers. It is optimistic that in the year 2006 compared to the year 2004 heat sales increased not significantly and reached 166,17 mln. LTL.



The increase of sales was influenced by the increased heat energy consumption for the connection of the new heat consumers, more exact heat energy lecture and the need of residents to live in the higher comfort conditions.

In the year 2006 the Group earned 5907 thousand LTL net profit, Company – 9360 thousand LTL. The income from the main activity of the Group reached – 183745 thousand LTL, Company's – 183224 thousand LTL. The largest part of income was received from the sold heat energy: Group's – 90 percent, Company's – 91 percent.

Already today we can state that the new management decisions implemented in the Group, larger investments into the new technologies, renewal of the infrastructure and the development helps Company quickly adapt to the changes in the market and to become advanced heat energy supply and buildings engineering systems exploitation company in the Kaunas region.

In the year 2006 for the Company investments there were used 32,314 mln. LTL, from which 3,2 mln. LTL were alloted for the connection of 42 new consumers to the centralized district heating networks, the total capacity of which is 22,7 MW by implementing the reconstruction of the heat supply networks (0,9km) and by laying new heat supply networks (1,9km).

The strategic aim of the Group – to maintain current position in the market and to develop it. Exceptional attention to the consumer, high work quality are the main values and aims at the same time on which the activity of all the Group's employees is based. It is likely that the conception implemented by the Group to transfer from the massive communication model to the individual consumer needs corresponding communication will be expedient step and effective, progressive investment to the future. Wanting to be competitive in the market and to offer high quality services for the consumers there is a need constantly to increase energy production, heat supply and services efficiency. Quality is requested every day in all the areas – in the management of the Group and Company processes, in the protection of the environment, health of employees, in the working and learning, in the management of documents and in the making of decisions.

External risk factors influencing the main activity of the Group are: inflation, economical crisis, unfavoroable governmental laws and orders, local self-government decisions, prices politics, state material prices regulation.

Economic factors. Company covers the main heat supplier position in the Kaunas region. Aiming to maintain it, it is important to adapt to the changing energy supply conditions, further to implant modern and efficient technologies, to orientate to the qualitative service to consumers and to have flexible marketing. In accordance with the changes in the market, heat prices are corrected.

The sales of the company depend on the heat energy consumption which directly depends on the outside temperature during heating season and on the opportunity to pay bills for the supplied heat energy. The decrease of industrial consumers of the heat energy was some years ago and there is no risk for that any more. By connecting new consumers it is important to consider business development opportunity.

The improvement of the building outside fence heat isolation and better quality of the windows and doors, the reconstruction of heating systems will reduce heat needs of the buildings. Furthermore for the better opportunity to control the temperature of lodgings partly heat usage can be reduced. Better distribution of the heat inside and better comfort conditions will settle greater heat consumption.

At this moment the stable economical situation determines the increase of resident purchase power. Commercial and service sector grow. The destabilization of the current state would determine risk increase for the heat supply and for the business of buildings supervision services.

For the energy production the main used fuel is natural gas. Growing fuel prices have influence on the heat and electric energy production cost price and to the heat energy price purchased from the closed-end company Kauno termofikacijos elektrinė (Kaunas Power Plant).

The competition of gas and electricity supply companies with the Group and the Company is displayed by the reconnections of the consumers from the centralized district heating system and by the choice of alternative heat source (gas, electricity or other fuel). The choice of the fuel kind is reglamentated by the Kaunas city council decision confirmed „Order of the heat consumers equipment reconnection from the heat supply system and lodgings or building heating way change“.

In essence the management of the Group and the Company was restructured in the year 2004. The skills of the employees are adapted to the new technologies.

The activity of the Group and the Company is cyclic. During heating season (October-April) the biggest income is being received; during non heating season the production facilities of the Group and the Company are used not fully and during this period income is the lowest, but during it the Group and the Company has to prepare for the heating season (reconstruction and maintenance works are being implemented in the heat supply networks and boiler-houses).

Political factors. Kaunas city municipality having the control package of the Company‘s shares, in accordance with the Lithuanian Republic laws can determine for the Group and the Company certain obligatory works, heat energy supply conditions and orders to the main activity of the Group and the Company. According to the given by the Group and company heat energy price calculation project the base price of the Group‘s and the Company‘s supplied heat energy is determined by the State prices and energy control commission, the Council of municipality in compliance with the base price determined by the Commission determines for the supplier the price for heat supplied by the district heating. The base price is recalculated annually according for the concrete supplier determined activity efficiency increasement index and to the Commission determined correction coefficients: inflation correction coefficient, fuel prices changes correction coefficient, realized heat change coefficient, other factors correction coefficient. If the recalculated heat price does not differ from the valid heat prices more than 1 percent then the valid heat price can be not changed. From the main shareholder depends the election of the Company‘s Chairman of the Supervisory Board and the municipality‘s representatives control the management of the Company.

Social factors. The activity of the Group is significant to many residents and companies of the Kaunas region. Part of residents sometimes lay claims to the Group for the bills amount, non qualitative service, insufficient attention to customers.

Technical-technological factors. The most important inside risk is raised by the heat supply systems and their condition. The automatization level in the heat production infrastructure settles large need of hand work and to that related large personnel costs. Heat supply systems exploitated by the Company are reconstructed by using the most advanced technologies and equipments aiming to increase the efficiency of those systems. Buildings heating and hot water supply systems and heat points supervised by the Group in most situations need to be reconstructed. The economical situation of the Group and the Company still stipulate insufficient costs to the rehabilitation, renovation of the equipment and to the development of the Group and the Company.

Ecological factors. The Group and the Company follow the order of the Helsinki Commission (HELCOM) and the Helsinki Convention environmental limits for the burning of mazut. The main pollution sources are: the pollution of the atmosphere – organic fuel burning, water pollution – the preparation for production needs. The Group and the Company every quarter pays taxes for the atmosphere and water pollution. The pollution amount is limited by the Kaunas and Marijampolė regional environment safety departments by giving to the Company "Pollution integrated prevention control permissions". According to the Lithuanian Republic laws fines are payed if the marginal norms of permitted pollutions and yearly limits were exceeded. From the year 2006 according to the laws of Lithuanian Republic for the Group and the Company privileges are applied by giving the right not to pay taxes for the pollutants which exude by burning biofuel. The main aims of the Group and the Company for the reduction of pollutants emission are: the reduction of the heat transfer losses by the changing pipes with the poliurethane-foam isolation; implant of the new, modern heat production technologies (modern burners, boilers transfer to the water heating regime); constant monitoring of the pollution; in the balance of the fuel gas dominates – 70 percent, mazut – 18 percent, peat – 7 percent, biogas – 3 percent, chips – 2 percent.

The repayment of the bank loans: The Company repays loans in the determined time.

Trials: There are no trials influencing the activity of the Company.

III. The analysis of the companies group financial and nonfinancial activity results, information related to the environment and personnel issues

In the year 2006 Company successfully implemented the activity programme.

The comparison of financial data of the year 2006 with the year 2005

Number	Index name	Company's 2005	Company's 2006	Group's 2006
1	Net profitability, percent (net profit /sales and services)*100	3,75	5,11	3,21
2	Return on tangible asset, percent	3,10	4,63	2,95
3	Debt coefficient (liability /asset)	0,39	0,39	0,39
4	Debt – ownership coefficient (liability/ownership of the owners)	0,64	0,63	0,64
5	General liquidity coefficient (short term asset /short term liability)	1,37	0,99*	0,99
6	The turnover of the asset (sales and services /asset)	0,87	0,87	0,89
7	Net profit per share (net profit/average weighted number of the shares in turover)	0,33	0,47	0,30
8	Sales and services, thousand LTL	171 382	183 224	183 734
8.1.	Heat energy	161 532	166 172	166 172
8.2.	Electric energy	1 725	2 005	2 005
8.3.	The supervision of building heating and hot water supply systems, heating points equipment	8 125	6 893	7 414

9.	Net profit, thousand LTL	6 425	9 360	5 907
10.	Asset, thousand LTL	197 018	211 350	207 154**
11.	The ownership of the owners, thousand LTL	120 273	129 633	126 180
12.	The ownership of the owners per share, LTL	6,10	6,57	6,40
13.	Share capital, thousand LTL	118 310	118 310	118 310
14.	Relation of share capital and asset	0,60	0,56	0,57

* decrease was stipulated by the increased financial liablity for the current year.
** the asset of the Group is less than the Company's because of the elimination of 4,5 mln. LTL asset value recalculation for the asset contribution to the daughter company.

The comparison of financial indexes of the year 2006 with the year 2005.
The comparison of non financial data of the year 2006 with the year 2005

Number	**Index name**	**Index characterization**	**Company's 2005**	**Company's 2006**	**Group's 2006**
1.	Produced energy	thousand MWh	1.831,4	1821,1	1821,1
1.1.	Heat energy supplied to the network	thousand MWh	1816	1804	1804
1.2.	Electricity energy	thousand MWh	15,4	17,1	17,1
2.	Sold energy	thousand MWh	1412,3	1438,3	1438,3
2.1.	Heat energy	thousand MWh	1398	1423	1423
2.2.	Electricity energy	thousand MWh	14,3	15,3	15,3
3.	Reconstructed heat supply route	m	4540,95	4976,15	4976,15
4.	New layed heat supply route	m	2905,8	3381	3381

The influence of the environment on the activity. After the increase of fuel prices the costs of the Group and the Company fuel technology (for the heat energy production by the ownership right belonging production sources) for the sold 1 heat energy kWh in the year 2006 compared with the year 2005 increased 0,4 ct (54,1 percent) and amounts 1,14 ct.

Aiming to reduce the production costs of the Group and Company and to increase the reliability of the Kaunas city integrated network reserve production source, the competion for the Petrašiūnai power plant exploitation services purchase was announced. For the Company which won the competition – closed-end company „Energijos sistemų servisas" – in July, 2006 Company passed the exploitation of the Petrašiūnai power plant, the largest part of the Petrašiūnai power plant employees started to work at the closed-end company „Energijos sistemų servisas". By further restructurization of the Company, on the base of Services department Company established the daughter company – closed-end company „Pastatų priežiūros paslaugos" to which went to work the part of Services department employees. After structural changes the listed number of the Company's employees from 898 decreased to 630.

The management more attention pays to the work efficiency and consumers service quality. The qualification level of the management and specialists correspond occupied duties, the work record and practical knowing of things of other employees lets to work in the occupied duties. The change of the employees is not feelled in the Company and the Group.

The change of listed employees number

Listed number of employees	**Company's 31-12-2005**	**Company's 31-12-2006**	**Group's 31-12-2006**
Total	898	630	735
Managers	6	6	12
Specialists	355	282	306
Workers	537	342	417

The education of employees

Education level	Company's 31-12-2005	Company's 31-12-2006	Group's 31-12-2006
Not finished secondary	44	27	41
Secondary	406	273	321
College	172	117	132
Higher	276	213	241

IV. References and additional explanations on the data presented in the annual financial accountability

All main financial data are presented in the annual financial accountability and its explanation letter.

V. Important events from the end of the previous financial year

In accordance with the 31 March, 2003 Heat purchase-sale agreement and according to the changes of inflation, from the 1 January, 2007 the heat energy price purchased from the closed-end Company Kauno termofikacijos elektrinė was recalculated. The price of heat energy sold by the company to the consumers didn't changed from the 1 August, 2004 and it will remain stable till the 1 August, 2007 (11,97 ct/kWh without VAT).

There were no other important events from the end of the previous financial year till the annual report confirmation.

VI. The plans and prognoses of the activity of the companies group

In the future the Group in its activity foresees to increase the activity efficiency, consumers service, to strive for the better activity results.

Only by investing we could be competitive in the market, to strive for constant business development and sufficient profitability. Investments have sence, they create strong potential for the development. The aim of the Group investment programme for the year 2007 is to maintain and develop Company's heat and electricity energy production, transmission and supply.

In the year 2007 it is foreseen to allot 36,897 mln. LTL (Company plans to invest 20,2 mln. LTL its own funds and other funds it hopes to borrow from commercial banks or to receive from EU structural funds). The largest investments are alloted to the reconstruction of the heat supply networks, maintenance and new laying, to the closing of the group heat points. Further it is foreseen to implement the documents and clients service management system, remote data gathering equipment, to change the heat calculation equipment, to carry out reconstruction of the Pergalė boiler house water heating boilers, to carry out the reconstruction of Smetonos av. 65a boiler house. The implementation of these aims will let to reduce heat energy production and supply losses, to increase hidraulic and temperature regimes in the heat supply networks.

In the year 2006 Company together with JSC „Lietuvos dujos" and Jurbarkas district municipality signed the agreement for the gasification of Jurbarkas city. In the year 2007 after the implementation of the statutes of this agreement and after the adaptation of Company's subsidiary „Jurbarko šilumos tinklai" boiler house to burn natural gas, the reliability of the heat production and supply would be increased and heat production costs would be reduced. The company would avoid the need to burn surphur mazut and at the same time it would avoid the excel of the permissible norms of the pollution to the atmosphere.

Planned activity indexes for the year 2007

Index name	Company's thousand LTL	Group's thousand LTL
Sales income	191673	193191
Costs	189541	191020
Total profit (loss)	2132	2171
Other activity result	300	384
Incomes	1913	2050
Costs	1613	1666
Financial investment activity result	181	181
Incomes	1875	1875
Costs	1694	1694
Total profit (loss)	2613	2736

VII. Information on the companies group research and development activity

In the year 2006 the public institution Kaunas regional energy agency carried out the analysis of methods of the Company's consumers provision with heat energy.

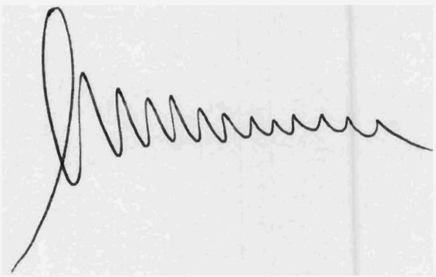
VIII. Number and the nominal value of the company's shares belonging to the company, daughter company or by their assigment but by their name acting persons

The company has no shares of itself and it's daughter company has no shares of the Company.

IX. Information on the Governance code of the companies observance

Information on the Governance code of the companies observance is presented in Annex 1 of the annual report.

General Manager
JSC „Kauno energija"



Aleksandras Sigitas Matelionis

Annex 1

JSC "Kauno energija" report on the compliance with the Governance Code for the companies listed on the Vilnius Stock Exchange

JSC "Kauno energija", 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 Vilnius Stock Exchange for the companies listed on the regulated market, and its specific provisions.

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.	No	Every year Company prepares and revises the strategy of production. The provisions of the Company's strategy in which there are no confidential information and the process of decisions making publicly is placed on the website and presented in the annual report and yearly prospects-reports.
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	
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	All the bodies of the Company (Manager, the Management board and the Supervisory board) aim to implement this recommendation, mutual meetings of the Management board and the Supervisory board are organized.
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	
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 its turn, facilitate a more efficient and transparent management process.	Yes	
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	A collegial management body of the Company – the Management board is responsible for the strategic management of the Company and performs other key functions of the Company management. A collegial supervisory body – the Supervisory board is responsible for the effective supervision of the Company's management bodies activity.
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	There are the Supervisory board and the Management board 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.	Yes	
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.	Yes	According to the statutes of the Company the Supervisory board from 7 (seven) members is elected and the Supervisory board elects the Management board from 7 (seven) members.
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 is elected for the 4 (four) years and according to the statutes of the Company and practice it is not forbidden to re-elect the members of the Supervisory Board for the new term.

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 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.	Yes	The Chairman of the Company's Supervisory board haven't been the Manager of the Company.
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.**		
3.1. 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	These recommendations the Company carries out by using voting mechanism by which help for the small shareholders there is an opportunity to have their representative in the collegial body.
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	In the work regulations of the Supervisory board it is foreseen that every member of the body has to inform the chairman of the Supervisory board about his data change.
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 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.	No	The Company announces only that information which is provided to it by the members of the collegial body and which is presented in the annual prospect-report (data about the company's participation in the authorized capital, data on the participation in the activity of the other companies, institutions and organizations (the name of the company, institution and organization and position), information on more than 5 percent others companies capital and votes, in percent).

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.	No	The Company does not influence the composition of the collegial body because the candidatures to the members of the collegial body are offered by the main shareholder.
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.	No	Till now in the practice of the Company all the members of the Supervisory board with the Company and its activity were introduced jointly and there was no annual review of the Supervisory board members because there was no such practice.
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 number of independent members.	No	The Company does not influence the composition of the collegial body because the candidatures to the members of the Company's collegial body are offered by the main shareholder. For this reason we didn't followed recommendation.

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 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	No	The Company does not follow this recommendation because the majority of the Supervisory board members (five members) represent the controlling shareholder having 85,99 percent of votes.

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; 9) 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.		
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	Till now there was no practice of independence consideration of the Supervisory board members and announcement.

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	Till now there was no consideration of the Supervisory board members independence, so for that there was no practice that independent persons have to make the re-confirmation of their independence periodically.
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. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the Supervisory board are not remunerated from the Company's funds.
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 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.	Yes	The Supervisory board elected in the Company presents to the general shareholders meeting opinions and proposals about the Company's annual financial accountability, profit allocation project, the Company's annual report, the activity of the Company's manager and the management board, also carries out other the Company's and it's management bodies activity supervision functions allotted to the Supervisory board competence.
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	By the data of the Company all the members of the Supervisory board are acting in good faith in the interests of the Company following the Company's but not the interests of the third persons.

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 of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	
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 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.	Yes	
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	
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. 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.	No	Five members of the Company's Supervisory board are representatives of the main shareholder – members of the Kaunas City Council. By the opinion of the Company the collegial management body is provided by the sufficient resources, except financial, because the remuneration for the Supervisory board and the Management board is not payed and it is determined only by the shareholders meeting but till now was not alloted.

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 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.	No	The Company does not follow this recommendation because there was no committees formation practice at the Company.
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	There was no formation of the committees from the members of the Supervisory board.
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	No	The Company does not follow this recommendation because there was no committees formation practice at the Company.

committee membership is refreshed and that undue reliance is not placed on particular individuals.		
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	The Company does not follow this recommendation because there was no committees formation practice at the Company.
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 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.	No	The Company does not follow this recommendation because there was no committees formation practice at the Company.

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	There is absolutely no formation of the committee which would be obligated to carry out for the Nomination committee allotted to carry out functions.
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 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	No	There is absolutely no formation of the committee which would be obligated to carry out for the Remuneration committee allotted to carry out functions.

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 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	No	There is absolutely no formation of the committee which would be obligated to carry out for the Audit committee allotted to carry out functions.

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 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.	No	There is no assessment of the Supervisory board activity and/or information about that practice and in the future the Company will strive to realize this provision.
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’s Supervisory board and the Management board realize this recommendation.
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.	Yes	

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 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.	Yes	The Company follows the order foreseen in the work regulations of the Supervisory board and the Management board and the information about the convened meeting is presented in advance together with all the information related to the meeting agenda.
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	
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 ordinary registered shares which make the authorized capital of the Company for all shares owners give 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	
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. 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	In compliance with the law on the Joint stock companies and the Company's statutes in this recommendation foreseen transactions confirmation issues are ascribed to the competence of the Management board but in individual cases for the asset transmission transactions the Company applies to the shareholders meeting.

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 agenda of the general shareholders' meeting and receive answers to them.	Yes	
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. 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	Information about the shareholders decisions projects and the decisions taken by the shareholders meeting Company publicly places on the Company's website and disseminates it through the Vilnius Stock Exchange used information dissemination system, as foreseen in the law on the Joint stock companies.
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	The shareholders of the Company can implement the right to participate in the general shareholders meeting in person and through the representative if the person has proper authorization or with him was made the voting right transmission agreement in compliance with the legal acts order, also the Company makes conditions for the shareholders to vote by completing the general voting ballot as foreseen by the law on the Joint stock companies.
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	According to the order of the Company's shareholders meeting and the lists of shareholders till now there was no need to implement this recommendation in the Company.

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 conflict and value, where possible.	Yes	
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	
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	The Company does not announce the report on the Company's remuneration policy. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not demanded by the legal acts. The remuneration for the Supervisory board and the Management board of the Company is determined by the shareholders meeting and till now there was no payments. The remuneration for the Manager of the Company is determined by the Management board in compliance with the Lithuanian Republic Government decision "For the state enterprises and joint stock,

		closed-end companies controlled by the state administration managers, their deputies and chief accountants remuneration". According to this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information on the termination payments and loans for the members of the Supervisory board, the Management board and administration (Manager, Chief accountant) in the annual prospects.
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	For the reasons foreseen in the 8.1. recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company.
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 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.	No	For the reasons foreseen in the 8.1. recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company.
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	For the reasons foreseen in the 8.1. recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company, but the information on the termination and other payments is publicly announced in the annual prospects.
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.	No	For the reasons foreseen in the 8.1. recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company.

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	For the reasons foreseen in the 8.1. recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company.
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. 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	No	For the reasons foreseen in the 8.1. recommendation the remuneration policy according to which would be prepared the report on remuneration is not confirmed in the Company. Nevertheless in the prospects prepared and publicly announced by the Company in compliance with the legal acts orders, the Company announces information about the remuneration for the members of the Supervisory board, Management board, administration (Manager, Chief accountant).

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.	No	The Company does not use 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.
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 follows all the orders foreseen in the laws for the stakeholders opportunities to participate in the management of the Company, but at this moment no any stakeholder group, having the right determined by the laws to participate in the management of the Company, is not realized by the order determined in the law.
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	Information, provided in this recommendation, Company announces through the Vilnius Stock Exchange used information dissemination system and places on the Company's website, daily newsletter "Kauno diena", specialized zone of Baltic News Service (BNS).
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with 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.	Yes	The Company information through the Vilnius Stock Exchange used information dissemination system presents simultaneously in Lithuanian and English languages as it possible. The received information Stock Exchange places on its website and trading system assuring simultaneous presentation of this information to all. The Company strives to announce the information before or after a trading session on the Vilnius Stock Exchange and at the same time to present it to all the markets in which there is trade in the Company's stocks. The Company does not provide the information which can have influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced through the Stock Exchange information system.

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 disseminates information by placing it on the Company's website in Lithuanian language.
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.	Yes	All the information provided in this recommendation is placed on the Company's website, except the information on the changes in the price of the Company's shares on the Stock Exchange because this information is publicly placed on the Vilnius Stock Exchange website and it can be reached by all the interested persons.
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	
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	The candidature of the Company"s audit company for the shareholders meeting if offered by the Management board in compliance with the results of the public competition.
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 information provided in the recommendation was not presented to the shareholders because after the confirmation of the Code there was no shareholders meeting in which the audit company would be elected which would provide audit services to the Company. In the shareholders meeting on 26 April, 2006 the audit company which would make the financial accountability audit for the 2006-2008 period was confirmed.