AB RYTŲ SKIRSTOMIEJI TINKLAI

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS, CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

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Independent Auditor's Report

To the Shareholders and the Board of Directors of Rytų Skirstomieji Tinklai AB

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rytų Skirstomieji Tinklai AB and its subsidiaries (the "Group") and the financial statements of Rytų Skirstomieji Tinklai AB (the "Company") standing alone set out on pages 5 - 43 which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
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.

Auditor's 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. 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.

PRICEWATERHOUSECOOPERS

Basis for Qualified Opinion

The Group's and the Company's property, plant and equipment is carried at revalued amount. The last revaluation was based on the fair values of the property, plant and equipment as at 31 December 2003. No revaluation was carried out during the year ended 31 December 2006. In accordance with International Accounting Standard No. 16 "Property, plant and equipment", revaluation of property, plant and equipment is required when the fair values of the revalued assets differ materially from their carrying amounts. In our opinion, some items of property, plant and equipment of the Group and the Company experienced significant changes in fair values, therefore should have been revalued as at 31 December 2006. There were no practical audit procedures that we could apply to enable us to determine the amount of adjustment, if any, which would be required if the revaluation had been performed and which would have an impact on the carrying value of property, plant and equipment in the balance sheet as at 31 December 2006.

The Group and the Company recognise revenue on customer connection services which are paid by the customers based on the tariffs approved by the National Control Commission for Prices and Energy in the accounting period in which the connection services are rendered. In our opinion, the Group and the Company should defer customer connection revenue and recognise them as income over the customer relationship period. As a result, the Group's and the Company's total liabilities in the balance sheet as of 31 December 2006 should be increased and retained earnings decreased by LTL 20,055 thousand (2005: LTL 15,827 thousand), whilst profit for the year then ended should be decreased by LTL 4,228 thousand (2005: LTL 6,238 thousand).

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company standing alone as of 31 December 2006, and of 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 read the Consolidated Annual Report for the year ended 31 December 2006 set out on pages 44 - 78 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2006.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner
Vilnius, Republic of Lithuania
17 April 2007

Ona Armalienė
Auditor's Certificate No.000008

(All tabular amounts are in LTL unless otherwise stated)

BALANCE SHEET

	Note	As at 31 December GROUP		COMPANY	
ASSETS		**2006**	**2005**	**2006**	**2005**
Non-current assets					
Property, plant and equipment	6	2,398,484,723	2,376,162,733	2,358,224,666	2,338,833,126
Intangible assets	7	2,879,289	3,112,570	2,879,289	3,112,570
Investments in subsidiaries	8	-	-	36,643,000	34,685,000
Deferred income tax assets	18	490,888	432,403	-	-
Non-current receivables and prepayments	9	7,582,918	4,876,284	7,582,918	4,876,284
		2,409,437,818	2,384,583,990	2,405,329,873	2,381,506,980
Current assets					
Inventories	10	6,989,142	6,552,451	3,461,322	3,234,878
Trade and other receivables	11	89,963,171	86,576,277	92,930,718	87,804,427
Derivative financial intruments		255,321	-	255,321	-
Prepaid current income tax		214,567	-	83,652	-
Cash and cash equivalents	12	1,561,800	1,801,189	1,048,736	881,866
		98,984,001	94,929,917	97,779,749	91,921,171
Non-current assets classified as held for sale		475,885	341,160	475,885	341,160
		99,459,886	95,271,077	98,255,634	92,262,331
Total assets		2,508,897,704	2,479,855,067	2,503,585,507	2,473,769,311
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	13	492,404,653	492,404,653	492,404,653	492,404,653
Revaluation reserve	14	1,166,123,149	1,274,286,873	1,158,657,074	1,265,932,393
Legal reserve	14	49,356,490	-	49,240,465	-
Other reserves	14	61,850,362	-	60,574,527	-
Retained earnings		125,586,172	138,276,121	132,415,072	144,880,654
Total equity		1,895,320,826	1,904,967,647	1,893,291,791	1,903,217,700
LIABILITIES					
Non-current liabilities					
Borrowings	17	80,362,769	85,318,688	80,362,769	85,318,688
Deferred income tax liabilities	18	225,799,594	248,881,991	225,917,975	248,881,991
Other non-current liabilities	15	67,599,583	43,789,515	67,599,583	43,789,515
		373,761,946	377,990,194	373,880,327	377,990,194
Current liabilities					
Trade and other payables	16	168,793,154	141,213,513	169,042,512	137,716,190
Current income tax liabilities		9,181,741	16,243,204	8,878,846	15,404,718
Borrowings	17	61,840,037	39,440,509	58,492,031	39,440,509
		239,814,932	196,897,226	236,413,389	192,561,417
Total liabilities		613,576,878	574,887,420	610,293,716	570,551,611
Total equity and liabilities		2,508,897,704	2,479,855,067	2,503,585,507	2,473,769,311

The financial statements on pages 5 to 43 have been approved by the General Director and the Finance Director on 16 April 2007.

Rimantas Milišauskas
General Director

Arvydas Zakalskis
Finance Director

The notes on pages 10 to 43 form an integral part of these financial statements.

(All tabular amounts are in LTL unless otherwise stated)

INCOME STATEMENT

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2006	2005	2006	2005
Revenue	19	933,779,159	869,155,758	933,457,971	871,435,546
Other income	22	1,234,298	855,770	2,286,529	939,416
Electricity purchased		(375,670,479)	(345,182,200)	(375,670,479)	(345,182,200)
Electricity transmission service expense		(150,617,312)	(141,454,587)	(150,617,312)	(141,454,587)
Depreciation and amortisation		(174,500,306)	(171,997,624)	(167,809,404)	(167,442,317)
Employee benefits and related social insurance contributions		(107,633,208)	(92,618,591)	(81,176,885)	(73,644,251)
Repair and maintenance expense		(48,820,032)	(44,379,791)	(70,973,382)	(64,352,183)
Transportation expense		(710,340)	(514,711)	(12,579,399)	(11,850,180)
Other gains/(losses) - net		269,878	(1,888,971)	212,085	(1,966,465)
Other expenses	23	(44,008,137)	(46,263,067)	(44,645,949)	(42,927,668)
Operating profit		33,323,521	25,711,986	32,483,775	23,555,111
Finance income	20	738,903	189,788	738,285	179,484
Finance costs	21	(4,123,609)	(3,820,610)	(3,990,029)	(3,809,461)
Finance costs - net		(3,384,706)	(3,630,822)	(3,251,744)	(3,629,977)
Profit before income tax		29,938,815	22,081,164	29,232,031	19,925,134
Income tax expense	24	(5,117,310)	(3,344,536)	(4,689,614)	(2,938,453)
Profit for the year		24,821,505	18,736,628	24,542,417	16,986,681
Attributable to:					
Equity holders of the Company		24,821,505	18,736,628	24,542,417	16,986,681
Earnings per share for profit attributable to the equity holders of the Company (expressed in LTL per share)					
– basic / diluted	25	0.050	0.037	0.050	0.034

The notes on pages 10 to 43 form an integral part of these financial statements.

(All tabular amounts are in LTL unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company					
GROUP	**Note**	**Share capital**	**Revaluation reserve**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2005		**492,404,653**	**1,479,857,078**	**42,060,928**	-	**(119,697,617)**	**1,894,625,042**
Depreciation transfer, net of tax		-	(115,364,763)	-	-	115,364,763	-
Effect of increase in tax rate on revaluation reserve	18	-	(8,394,023)	-	-	-	(8,394,023)
Net expense recognised directly in equity		-	(123,758,786)	-	-	115,364,763	(8,394,023)
Profit for the year		-	-	-	-	18,736,628	18,736,628
Total recognised income and expense for 2005		-	(123,758,786)	-	-	134,101,391	10,342,605
Issue of share capital	13	81,811,419	(81,811,419)	-	-	-	-
Decrease in share capital	13	(81,811,419)	-	-	-	81,811,419	-
Utilisation of legal reserve	14	-	-	(42,060,928)	-	42,060,928	-
Balance at 31 December 2005		**492,404,653**	**1,274,286,873**	**-**	**-**	**138,276,121**	**1,904,967,647**
Balance at 1 January 2006		**492,404,653**	**1,274,286,873**	**-**	**-**	**138,276,121**	**1,904,967,647**
Depreciation transfer, net of tax – recognised directly in equity		-	(108,163,724)	-	-	108,163,724	-
Profit for the year		-	-	-	-	24,821,505	24,821,505
Total recognised income and expense for 2006		-	(108,163,724)	-	-	132,985,229	24,821,505
Transfer to reserves	14	-	-	49,356,490	61,850,362	(111,206,852)	-
Dividend relating to 2005	26	-	-	-	-	(34,468,326)	(34,468,326)
Balance at 31 December 2006		**492,404,653**	**1,166,123,149**	**49,356,490**	**61,850,362**	**125,586,172**	**1,895,320,826**

The notes on pages 10 to 43 form an integral part of these financial statements.

(All tabular amounts are in LTL unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

COMPANY	Note	Share Capital	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2005		**492,404,653**	**1,479,857,078**	**42,060,928**	**-**	**(119,697,617)**	**1,894,625,042**
Depreciation transfer, net of tax		-	(123,719,243)	-	-	123,719,243	-
Effect of increase in tax rate on revaluation reserve	18	-	(8,394,023)	-	-	-	(8,394,023)
Net expense recognised directly in equity		-	(132,113,266)	-	-	123,719,243	(8,394,023)
Profit for the year		-	-	-	-	16,986,681	16,986,681
Total recognised income and expense for 2005		-	(132,113,266)	-	-	140,705,924	8,592,658
Issue of share capital	13	81,811,419	(81,811,419)	-	-	-	-
Decrease in share capital	13	(81,811,419)	-	-	-	81,811,419	-
Utilisation of legal reserve	14	-	-	(42,060,928)	-	42,060,928	-
Balance at 31 December 2005		**492,404,653**	**1,265,932,393**	**-**	**-**	**144,880,654**	**1,903,217,700**
Balance at 1 January 2006		**492,404,653**	**1,265,932,393**	**-**	**-**	**144,880,654**	**1,903,217,700**
Depreciation transfer, net of tax – recognised directly in equity		-	(107,275,319)	-	-	107,275,319	-
Profit for the year		-	-	-	-	24,542,417	24,542,417
Total recognised income and expense for 2006		-	(107,275,319)	-	-	131,817,736	24,542,417
Transfer to reserves	14	-	-	49,240,465	60,574,527	(109,814,992)	-
Dividend relating to 2005	26	-	-	-	-	(34,468,326)	(34,468,326)
Balance at 31 December 2006		**492,404,653**	**1,158,657,074**	**49,240,465**	**60,574,527**	**132,415,072**	**1,893,291,791**

The notes on pages 10 to 43 form an integral part of these financial statements.

(All tabular amounts are in LTL unless otherwise stated)

CASH FLOW STATEMENT

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2006	2005	2006	2005
Cash flows from operating activities					
Profit for the year		24,821,505	18,736,628	24,542,417	16,986,681
Adjustments for:					
– Income tax	24	5,117,310	3,344,536	4,689,614	2,938,453
– Depreciation and amortisation		174,625,716	171,997,624	167,934,814	167,442,317
– (Profit)/loss from disposal of property plant and equipment (PPE)		(19,795)	1,888,098	43,235	2,030,121
– Retirement of intangible assets and PPE	6, 7	10,381,743	7,070,945	10,245,050	7,065,388
– Impairment charge of PPE	6	(259,790)	(650,096)	(259,790)	(650,096)
– Reversal of impairment charge of PPE	6	229,441	78,284	229,441	78,284
– (Reversal of)/impairment charge on accounts receivable	23	1,423,721	(865,401)	1,445,932	(1,001,728)
– (Reversal of)/impairment charge on inventory		(553,728)	(593,242)	(833,194)	(778,066)
– Interest income	20, 22	(902,420)	(384,888)	(1,073,662)	(470,209)
– Interest expense	21	4,122,875	3,737,218	3,989,300	3,726,069
– Dividend income	22	-	-	(927,907)	-
Changes in working capital:					
– Inventories		630,427	5,712,590	1,121,169	9,169,299
– Trade and other receivables		(5,164,600)	(10,486,436)	(5,335,318)	(9,586,414)
– Trade and other payables		47,108,981	28,649,034	50,501,155	25,252,610
Cash generated from operations		261,561,386	228,234,894	256,312,256	222,202,709
Interest paid		(3,944,286)	(3,715,978)	(3,810,711)	(3,704,829)
Income tax paid		(35,489,119)	(15,183,302)	(34,263,154)	(15,183,302)
Net cash generated from operating activities		222,127,981	209,335,614	218,238,391	203,314,578
Cash flows from investing activities					
Purchases of PPE and IA		(208,415,910)	(164,046,776)	(199,798,918)	(156,802,843)
Proceeds from sale of PPE and IA		1,173,369	1,210,067	1,101,083	1,072,526
Loans granted to subsidiaries	29	-	-	(2,000,000)	(2,000,000)
Loan repayments received		715,353	772,175	715,353	772,175
Interest received		902,420	384,888	1,073,662	470,209
Dividends received		-	-	927,907	-
Contribution to the share capital of subsidiaries	8, 30	-	-	-	(30,000)
Net cash used in investing activities		(205,624,768)	(161,679,646)	(197,980,913)	(156,517,933)
Cash flows from financing activities					
Proceeds from borrowings		14,847,040	10,358,400	14,847,040	10,358,400
Repayments of borrowings		(12,142,347)	(56,009,092)	(12,142,347)	(56,009,092)
Dividends paid to the Company's shareholders		(34,186,211)	-	(34,186,211)	-
Net cash used in financing activities		(31,481,518)	(45,650,692)	(31,481,518)	(45,650,692)
Increase/(decrease) in cash and cash equivalents (including overdraft)		(14,978,305)	2,005,276	(11,224,040)	1,145,953
Cash and cash equivalents (including overdraft) at beginning of year	12	(26,245,080)	(28,250,356)	(27,164,403)	(28,310,356)
Cash and cash equivalents (including overdraft) at end of year	12	(41,223,385)	(26,245,080)	(38,388,443)	(27,164,403)

The notes on pages 10 to 43 form an integral part of these financial statements.

(All tabular amounts are in LTL unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Rytų skirstomieji tinklai AB (hereinafter "the Company") is a limited liability company registered in the Republic of Lithuania. In the State Register of Enterprises the Company was registered on 31 December 2001. The Company's shares are listed on the Vilnius Stock Exchange (Lithuania). The address of the Company's registered office is:

P. Lukšio 5b,
LT-08221 Vilnius,
Lithuania

As at 31 December 2006 the Company's two primary shareholders were the Government of the Republic of Lithuania represented by the Ministry of Economy (hereinafter "the Government") with 71.35 percent (2005: 71.35 percent) and E.ON Ruhrgas International AG (Germany) with 20.28 percent (2005 E.ON Energie AG: 20.28 percent) of the Company's shares. The remaining shares are widely held.

The main activities of the Company are trade in electricity and electricity distribution. The Company is a public supplier obliged to supply electricity to the residents and entities, which have not chosen an independent electricity supplier, in the eastern part of Lithuania. The Company, owning medium and low voltage electricity network, is a monopolist in electricity distribution services to the consumers in the eastern part of Lithuania.

The Company was registered as a result of the reorganisation of Lietuvos Energija SPAB. Following the Law on Reorganisation of Lietuvos Energija SPAB no. VIII-1693, dated 18 May 2000, Lietuvos Energija SPAB was reorganised through disintegration. Upon reorganisation certain assets, rights and liabilities were transferred from Lietuvos Energija AB that continues its activities as the limited liability company, to newly established companies Rytų skirstomieji tinklai AB, Vakarų skirstomieji tinklai AB (name changed to VST AB), Lietuvos elektrinė AB and Mažeikių elektrinė AB.

After reorganisation Lietuvos Energija AB continues its activities as the transmission network operator and energy market operator and the Company and VST AB operate the distribution network and are public suppliers.

The Company's activities are regulated by the Law on Electricity of the Republic of Lithuania.

National Control Commission for Prices and Energy regulates the Company's activities by setting price-caps for licensed services. In 2006, the effective public tariff caps for electricity were as follows:

- customers receiving electricity from 110 kV and higher voltage electricity network – 12.39 ct/kWh (2005: 12.43 ct/kWh);
- customers receiving electricity from lower than 110 kV but not lower than 6kV voltage electricity network – 18.75 ct/kWh (2005: 18.87 ct/kWh);
- customers receiving electricity from 0,4 kV voltage electricity network – 28.93 ct/kWh (2005: 29.4 ct/kWh).

(All tabular amounts are in LTL unless otherwise stated)

1. General information (continued)

The consolidated group

The consolidated group (hereinafter "the Group") consists of the Company and its three subsidiaries. The subsidiaries included in the Group's consolidated financial statements are listed below:

Subsidiary	Country of incorpora-tion	Year of establish-ment	Group's share (%) as at		Profile
			31 December 2006	31 December 2005	
Rytra UAB	Lithuania	2004	100	100	Provides transportation services
Elektros tinklo paslaugos UAB	Lithuania	2004	100	100	Provides electricity network and related equipment repair and maintenance services
Tetas UAB	Lithuania	2005	100	100	Provides electricity network design, construction, repair and maintenance services, customer connections to the grid services

As at 31 December 2006 the Government was the ultimate controlling party of the Group and the Company.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

These financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Reclassification of comparative amounts

In the financial statements for the year ended 31 December 2006 the Group and the Company reclassified certain comparative amounts. For explanations on reclassifications see Note 31.

2.1 Basis of preparation (continued)

Correction of errors

The Group and the Company discovered an error made in their financial statements for the year ended 31 December 2005 in respect of calculation of basic earnings per share. As a result of correcting this error, the weighted average number of ordinary shares in issue for the year ended 31 December 2005 increased from 492,404,653 shares to 506,039,890 shares. As a result, the Group's basic earnings per share for profit attributable to the equity holders of the Company decreased from LTL 0.038 per share to LTL 0.037 per share for the year ended 31 December 2005. There were no changes in basic earnings per share in the Company's stand alone financial statements for the year ended 31 December 2005.

In the preparation of the financial statements for the year ended 31 December 2006 the Group and the Company discovered an error relating to the long term loans granted by the Company which were not measured at their fair value upon initial recognition. The Group and the Company corrected the error retrospectively by restating the amounts as at 1 January 2005. As a result of correction of error, the Group's and the Company's non-current receivables and prepayments and retained earnings as at 31 December 2005 decreased by LTL 2,800,000.

In the preparation of its consolidated financial statements for the year ended 31 December 2006 the Group discovered an error with respect to transfer of revaluation reserve to retained earnings on contributions in kind of property, plant and equipment made to the share capitals of subsidiaries. The Group corrected the error retrospectively by restating the amounts as at 31 December 2005. As a result of correction of error, as at 31 December 2005 the Group's revaluation reserve increased and retained earnings decreased by LTL 8,354,480.

Standards, interpretations and amendments to published standards effective in 2006

The following standards, interpretations and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but are either not relevant to the Group's and Company's operations or do not have a material effect on the financial statements:

- IAS 19 (Amendment), Employee Benefits
- IAS 21 (Amendment), Net Investment in Foreign Operation
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6, Exploration for and Evaluation of Mineral Resource
- 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

Early adoption of standards, interpretations and amendments to published standards

The Group and the Company have not elected to early adopt any new standards, interpretations and amendments to published standards.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group and the Company

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's and the Company's accounting periods beginning on or after 1 January 2007 or later periods but which the Group and the Company have not early adopted:

2.1 Basis of preparation (continued)

(a) IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group and the Company are currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements. The Group and the Company will apply IFRS 7 and amendment to IAS 1 from 1 January 2007.

(b) IFRS 8, Operating Segments (effective from 1 January 2009)

IFRS 8 replaces IAS 14, Segment Reporting. It specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, Interim Financial Reporting, requires an entity to report additional selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. The Group and the Company are currently assessing what impact the new IFRS will have on disclosures in its financial statements. The Group and the Company will apply IFRS 8 from 1 January 2009. At the date of the issuance of these financial statements this standard was not adopted by the EU.

(c) IAS 23, Borrowing costs (revised March 2007) (effective from 1 January 2009)

IASB issued a revised IAS 23, Borrowing Costs on 29 March 2007. It supersedes IAS 23, revised in 1993. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group and the Company will apply the revised standard from that date. At the date of the issuance of these financial statements the revised standard was not adopted by the EU.

(d) IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006)

The interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. IFRIC 7 is not relevant to the Group's and the Company's operations.

(e) IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)

The interpretation clarifies whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. IFRIC 8 is not relevant to the Group's and the Company's operations.

2.1 Basis of preparation (continued)

(f) IFRIC 9, Re-assessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

IFRIC 9 clarifies certain aspects of the treatment of embedded derivatives under IAS 39, Financial instruments: Recognition and measurement. With certain exceptions, IAS 39 requires embedded derivatives to be separately recognised and measured when the entity first becomes a party to the contract. The IFRIC was asked whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition. The management of the Group and the Company believes that this interpretation will not significantly effect the financial statements of the Group and the Company. The Group and the Company will apply this interpretation from 1 January 2007.

(g) IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group and the Company will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's and the Company's accounts. At the date of the issuance of these financial statements this interpretation was not adopted by the EU.

(h) IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

The Interpretation addresses how to apply IFRS 2, Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. IFRIC 11 is not relevant to the Group's and the Company's operations as the Group and the Company are not involved in share-based payment arrangements. At the date of the issuance of these financial statements this interpretation was not adopted by the EU.

(i) IFRIC 12, Service Concession Arrangements (effective from 1 January 2008)

IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the government side of service concession arrangements. IFRIC 12 is not relevant to the Group's and the Company's operations as the Group and the Company are not involved in service concession arrangements. At the date of the issuance of these financial statements this interpretation was not adopted by the EU.

As described above, endorsement by the European Union of certain of the above new or revised IFRSs effective on or after 1 January 2007 is pending. However, management decided to include also these IFRSs in the above disclosure because the European Union may require their application to periods before the endorsement.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

2.2 Consolidation (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Lithuanian Litas (LTL), which is the Company's functional and presentation currency.

Since 2 February 2002 the exchange rate of the Litas has been pegged to the euro at a rate of LTL 3.4528 = EUR 1.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment is stated at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land is shown at a revalued amount less subsequent accumulated impairment losses. Fair values are determined based on periodic valuations by external independent valuers. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

(All tabular amounts are in LTL unless otherwise stated)

2.5 Property, plant and equipment (continued)

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (when increased on revaluation) charged to the income statement and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings. The whole of the revaluation surplus is transferred from revaluation reserve to retained earnings when the asset is retired or disposed.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful life, as follows:

– buildings	5-54 years
– stuctures and electricity network	5-53 years
– machinery and equipment	3-43 years
– other property, plant and equipment	3-53 years

Property, plant and equipment includes spare parts that can only be used in connection with specific item of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, annually at each year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. The loss arising from the retirement is included in the income statement when the asset is derecognised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2.6 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 years).

(b) Other intangible assets

Intangible assets expected to provide economic benefit to the Group and the Company in future periods are valued at acquisition cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line method over estimated benefit period (3 years).

(All tabular amounts are in LTL unless otherwise stated)

2.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group and the Company classify their financial assets in the following categories for measurement purposes: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management intentions and whether the investment is quoted in an active market. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, except for financial assets at fair value through profit or loss. Reclassifications out of or into this category after initial recognition are prohibited.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management if certain conditions are met. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets and are included in non-current receivables and prepayments in the balance sheet. Loans and receivables are included in trade and other receivables in the balance sheet (see Note 2.12).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the Group's and the Company's management has the positive intention and ability to hold to maturity. The Group and the Company did not hold any investments in this category during the period.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment or investment matures within 12 months of the balance sheet date in which case they are included in current assets. The Group and the Company did not hold any investments in this category during the period.

2.8 Financial assets (continued)

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group and the Company commit to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group and the Company have transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between currency translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The currency translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Interest income on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's and the Company's right to receive payments is established. All other changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group and the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group and the Company assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in income statement. Impairment testing of trade receivables is described in Note 2.12.

2.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group and the Company do not use hedge accounting, therefore derivative instruments are accounted for at fair value thorugh profit or loss. Changes in the fair value of derivative instruments are recognized immediately in the income statement within other gains/(losses) – net.

2.10 Investments in subsidiaries and associates in the separate financial statements of the Company

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted for at cost less impairment provision.

(All tabular amounts are in LTL unless otherwise stated)

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group and the Company from the tax authorities), transport, handling and other costs directly attributable to the acquisition of inventories. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 2 months overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against in the income statement.

2.13 Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.14 Cash and cash equivalents

For the purposes of the cash flow statement cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity.

2.16 Trade and other payables

Trade payables and other payables are accrued when the counterparty performed its obligations under the contract and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.18 Deferred income tax

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

(a) Long-term employee benefits

The Company and some other Group companies provide bonuses to their employees based on the years of service. The liability recognised in the balance sheet in respect of long-term employee benefits is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated at each balance sheet date by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related liability.

Actuarial gains and losses are recognised immediately in the income and no "corridor" is applied. All past service costs are recognised immediately.

(b) Profit-sharing and bonus plans

The Group and the Company recognise a liability and an expense for bonuses and profit-sharing where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Other employee benefits

Wages, salaries, contributions to the state social insurance funds, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by the employees of the Group or the Company.

2.20 Provisions

Provisions are recognised when the Group or the Company have a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's or the Company's activities. Revenue of the Company is shown net of value-added tax, returns, rebates and discounts and the Group's revenues – after additionally eliminating sales within the Group.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group or the Company and specific criteria have been met for each of the Group's or the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

(a) Sales of electricity

Revenue on electricity sales to residential sector customers are recognised when payment is received. At the end of each accounting period a revenue accrual is made to record amounts of electricity supplied but not yet paid. Revenue accrual is estimated as 1/3 of payments received in January next year for electricity.

Revenue on electricity sales to business customers are recognised when the sale of electricity is made based on the actual usage of the electricity which is determined based on electric meter measurements.

(b) Customer connection fees

Following legislation of the Republic of Lithuania customers reimburse the Group or the Company with 40 percent of expenses incurred by the Group or the Company in relation to connection of a customer to the electricity grid. The Group and the Company defer the revenue and recognise them as income over the period of 12 years, which is the average useful life of electricity equipment constructed by the Group or the Company as a result of the customer connection.

When the customer pays the fee for the connection services based on the tariffs approved by the National Control Commission for Prices and Energy, the Group and the Company recognise revenue in the accounting period in which the connection services are rendered.

(c) Sales of services

Sales of services, including revenue received for transfer of electricity equipment or reconstruction of electricity equipment based on the customer's request, are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Sales of goods

Sales of goods are recognised when the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier or to a specified destination, is transferred from the Group or the Company to the buyer in accordance with the standardised terms and conditions of sale (Incoterms) agreed with the buyer, and collectability of the related receivables is reasonably assured.

(e) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group or the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(All tabular amounts are in LTL unless otherwise stated)

2.21 Revenue recognition (continued)

(f) Devidend income

Dividend income is recognised when the right to receive payment is established.

2.22 Leases – the Group or the Company is the lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.23 Dividend distribution

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s and the Company’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

2.24 Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group or the Company will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.25 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given by the Company to banks on behalf of its subsidiaries.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group’s and the Company’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

3. Financial risk management

3.1 Financial risk factors

The Group’s and the Company’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. From time to time the Group may use derivative financial instruments to hedge certain risk exposures.

(All tabular amounts are in LTL unless otherwise stated)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group and the Company operate locally, therefore exposure to the foreign exchange risk is low. The Group and the Company borrow in Lithuanian Litas or euro which is pegged to Litas, therefore there is no foreign exchange risk arising from borrowings.

(ii) Price risk

The Group and the Company are not exposed to commodity price risk or any other price risk.

(b) Credit risk

Financial instruments that potentially subject the Group and the Company to a concentration of credit risk consist principally of temporary cash investments and accounts receivable. Maximum exposure to credit risk is reflected in the carrying values of the financial assets; the effect of any rights of sett-off is not significant.

The Group and the Company restrict placement of cash investments to financial institutions evaluated as highly creditworthy.

The Group and the Company do not have significant concentration of credit risk, with the exposure spread over a number of customers. Credit risks or the risks of counter-parties defaulting, are controlled by the application of credit terms and monitoring procedures. Management believes that there is no significant risk of loss to the Group or the Company beyond the provisions already established.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Group and the Company aim to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Group and the Company do not have significant interest-bearing assets, the Group's and the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's and the Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group and the Company to cash flow interest rate risk. As at 31 December 2006 all theGroup's and theCompany's borrowings were issued at variable rates, therefore there was no exposure to fair value interest rate risk. The Group and the Company manage their cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group and the Company raise long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group or the Company borrowed at fixed rates directly. Under the interest rate swaps, the Group and the Company agree with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group or the Company is the current bid price.

3.2 Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group and the Company use a variety of methods and make assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated based on swap valuation model.

The carrying value less impairment provision of trade receivables and the carrying value of accounts payable are assumed to approximate their fair values due to the short-term nature of trade receivables and payables. The fair value of financial assets for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the debtor for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Revaluation of property, plant and equipment

The Group's and the Company's property, plant and equipment is carried at revalued amount. The last revaluation was based on the fair values of the property, plant and equipment as at 31 December 2003. No revaluation was carried out in 2006. If the revaluation had been carried out in 2006, the carrying amount of the Group's and the Company's property, plant and equipment whould have been different from the carrying amount recorded in the balance sheet as at 31 December 2006. The management believes that the difference would not be significant. The carrying amount of revalued property, plant and equipment is disclosed in Note 6.

(b) Deferring of customer connection fees

As disclosed in Note 2.21, the Group and the Company defer the revenue received for the customer connections and recognise them as income over the period of 12 years, which is the average useful life of electricity equipment constructed by the Group or the Company as a result of the the customer connection. In Lithuania the status of eligible customers (customers who can choose an electricity supplier) was granted to all customers, excluding residential customers, starting from 1 July 2004. From 1 July 2007 all customers in Lithuania will become eligible. Since 1 July 2004 there were no customers of the Company who chose another supplier, furthermore, the Company is a monopolist in electricity distribution services to the consumers in the eastern part of Lithuania. Based on that the management believes that the customer relationship period is close to infinite, therefore average useful life of electricity equipment constructed by the Group or the Company upon connection is used as the best estimate of the period over which the customer connection fees are recognised as income. As at 31 December 2006 deferred customer connection fees amounted to LTL 64,037 thousand (2005: LTL 42,641 thousand) in the Group's and the Company's financial statements.

(All tabular amounts are in LTL unless otherwise stated)

4.1 Critical accounting estimates and assumptions (continued)

(c) Impairment provision for accounts receivable

Impairment provision for accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable. The carrying amounts of accounts receivable are disclosed in Notes 9 and 11.

(d) Useful lives of electricity network equipment

The management determines the estimated useful lives and the related depreciation charges for the Group's and the Company's electricity network equipment. The estimate is based on the projected changes in technology, expected physical wear and tear and expected usage of asset. It could change significantly as a result of technical innovations. On the contrary, if no significant technological changes will occur, the equipment might be used longer than currently estimated.

5. Segment information

(a) Primary reporting format – business segment

The Group has two reportable segments: electricity distribution and electricity supply.

Electricity distribution – transport of electricity through the distribution network. The Company, owning medium and low voltage electricity network, is a monopolist in electricity distribution services to the consumers in the eastern part of Lithuania.

Electricity supply – electricity supply and sale to the customers. The Company has a license of public supplier and is engaged in resale of electricity, i.e. buys electricity in the wholesale market and resells it to the customers.

The segment results for the year ended 31 December 2006 are as follows:

GROUP

	Electricity distribution	Electricity supply	Other	Unalocated	Group
Total gross segment sales	571,693,855	349,060,297	113,885,284	-	1,034,639,436
Inter-segment sales	(410,679)	(180,529)	(100,269,069)	-	(100,860,277)
Sales	571,283,176	348,879,768	13,616,215	-	933,779,159
Operating profit / segment result	28,662,083	(177,380)	3,878,587	960,231	33,323,521
Finance income (Note 20)					738,903
Finance costs (Note 21)					(4,123,609)
Profit before income tax					29,938,815
Income tax expense (Note 24)					(5,117,310)
Profit for the year					24,821,505

(All tabular amounts are in LTL unless otherwise stated)

5. Segment information (continued)

The segment results for the year ended 31 December 2005 are as follows:

GROUP

	Electricity distribution	Electricity supply	Other	Unalocated	Group
Total gross segment sales	539,502,691	314,753,095	97,187,252	-	951,443,038
Inter-segment sales	(398,450)	(170,607)	(81,718,223)	-	(82,287,280)
Sales	53,910,4241	314,582,488	15,469,029	-	869,155,758
Operating profit / segment result	22,260,694	(32,118)	3,043,538	439,872	25,711,986
Finance income (Note 20)					189,788
Finance costs (Note 21)					(3,820,610)
Profit before income tax					22,081,164
Income tax expense (Note 24)					(3,344,536)
Profit for the year					18,736,628

Other segment items included in the income statement are as follows:

GROUP	**Year ended 31 December 2006**			
	Electricity distribution	Electricity supply	Other	Group
Depreciation and amortisation	174,280,656	59,195	160,455	174,500,306
Impairment of PPE (Note 6)	229,441	-	-	229,441
Reversal of PPE impairment (Note 6)	(259,790)	-	-	(259,790)

GROUP	**Year ended 31 December 2005**			
	Electricity distribution	Electricity supply	Other	Group
Depreciation and amortisation	171,751,784	78,718	167,122	171,997,624
Impairment of PPE (Note 6)	78,284	-	-	78,284
Reversal of PPE impairment (Note 6)	(650,096)	-	-	(650,096)

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets comprise deferred taxation, prepaid income tax and available-for-sale financial assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as income tax liabilities, borrowings incurred for financing purposes and related interest liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 6) and intangible assets (Note 7).

(All tabular amounts are in LTL unless otherwise stated)

5. Segment information (continued)

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

GROUP	Electricity distribution	Electricity supply	Other	Unallocated	Group
Assets	2,423,450,838	33,658,027	42,858,013	8,930,826	2,508,897,704
Liabilities	152,448,760	77,227,521	6,716,456	377,184,141	613,576,878
Capital expenditure (Notes 6, 7)	200,570,923	-	8,478,001	-	209,048,924

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

GROUP	Electricity distribution	Electricity supply	Other	Unallocated	Group
Assets	2,402,742,181	32,066,220	36,542,749	8,503,917	2,479,855,067
Liabilities	109,129,849	68,707,968	7,165,211	389,884,392	574,887,420
Capital expenditure (Notes 6, 7)	155,974,988	-	7,923,654	-	163,898,642

(b) Secondary reporting format – geographical segments

The Group operates in one geographical segment – Republic of Lithuania.

6. Property, plant and equipment

GROUP	Buildings	Stuctures and electricity network	Machinery and equipment	Other PPE	Construction in progress	Total
At 1 January 2005						
Cost or revaluation	139,310,726	1,964,627,154	216,892,907	55,482,716	18,528,533	2,394,842,036
Impairment	-	-	-	-	(1,670,391)	(1,670,391)
Net book amount	139,310,726	1,964,627,154	216,892,907	55,482,716	16,858,142	2,393,171,645
Year ended 31 December 2005						
Opening net book amount	139,310,726	1,964,627,154	216,892,907	55,482,716	16,858,142	2,393,171,645
Additions	4,358,611	634,163	1,860,047	6,577,742	148,683,748	162,114,311
Disposals	(383,027)	(8,454)	(1,139,628)	(701,845)	-	(2,232,954)
Retirements	(156,707)	(5,246,248)	(614,726)	(1,042,399)	-	(7,060,080)
Reclassification	15,542,357	97,211,931	13,115,100	11,526,462	(137,395,850)	-
Reclassification to assets held for sale	(584)	-	(467,410)	(46,734)	-	(514,728)
Reversal of impairment provision	-	-	-	-	650,096	650,096
Impairment charge	-	-	(78,284)	-	-	(78,284)
Depreciation	(5,701,059)	(135,397,077)	(15,974,676)	(12,814,461)	-	(169,887,273)
Closing net book amount	152,970,317	1,921,821,469	213,593,330	58,981,481	28,796,136	2,376,162,733
At 31 December 2005						
Cost or revaluation	158,395,871	2,056,240,905	229,547,871	71,537,056	29,816,431	2,545,538,134
Accumulated depreciation and impairment	(5,425,554)	(134,419,436)	(15,954,541)	(12,555,575)	(1,020,295)	(169,375,401)
Net book amount	152,970,317	1,921,821,469	213,593,330	58,981,481	28,796,136	2,376,162,733

(All tabular amounts are in LTL unless otherwise stated)

6. Property, plant and equipment (continued)

GROUP	Buildings	Stuctures and electricity network	Machinery and equipment	Other PPE	Construction in progress	Total
Year ended 31 December 2006						
Opening net book amount	152,970,317	1,921,821,469	213,593,330	58,981,481	28,796,136	2,376,162,733
Additions	551,057	3,178,154	1,391,804	13,895,316	188,295,691	207,312,022
Disposals	(94,546)	(1,919)	(373,000)	(278,314)	-	(747,779)
Retirements	(248,599)	(9,241,079)	(773,577)	(118,387)	-	(10,381,642)
Reclassification	4,619,258	129,774,603	18,505,227	8,997,912	(161,897,000)	-
Reclassification to assets held for sale	(295,078)	(155)	(449,788)	(69,892)	-	(814,913)
Reversal of impairment provision	-	-	-	-	259,790	259,790
Impairment charge	-	-	(129,801)	(99,640)	-	(229,441)
Depreciation	(6,318,839)	(134,307,789)	(17,322,501)	(15,126,918)	-	(173,076,047)
Closing net book amount	151,183,570	1,911,223,284	214,441,694	66,181,558	55,454,617	2,398,484,723
At 31 December 2006						
Cost or revaluation	163,017,999	2,179,981,703	247,075,066	93,663,026	57,235,417	2,740,973,211
Accumulated depreciation and impairment	(11,834,429)	(268,758,419)	(32,633,372)	(27,481,468)	(1,780,800)	(342,488,488)
Net book amount	151,183,570	1,911,223,284	214,441,694	66,181,558	55,454,617	2,398,484,723

COMPANY	Buildings	Stuctures and electricity network	Machinery and equipment	Other PPE	Construction in progress	Total
At 1 January 2005						
Cost or revaluation	139,310,726	1964,627,154	216,892,907	55,482,716	18,528,533	2,394,842,036
Impairment	-	-	-	-	(1,670,391)	(1,670,391)
Net book amount	139,310,726	1964,627,154	216,892,907	55,482,716	16,858,142	2,393,171,645
Year ended 31 December 2005						
Opening net book amount	139,310,726	1,964,627,154	216,892,907	55,482,716	16,858,142	2,393,171,645
Additions	46,525	1,113,761	1,828,826	3,870,519	148,683,748	155,543,379
Contribution to the share capital of subsidiaries	(12,033,814)	(5,769,591)	(1,572,218)	(15,992,553)	-	(35,368,176)
Disposals	(383,027)	(8,454)	(1,139,236)	(643,064)	-	(2,173,781)
Retirements	(155,889)	(5,246,248)	(614,714)	(1,048,208)	-	(7,065,059)
Reclassification	14,812,167	99,512,282	13,145,778	9,925,623	(137,395,850)	-
Reclassification to assets held for sale	(584)	-	(467,410)	(46,734)	-	(514,728)
Reversal of impairment provision	-	-	-	-	650,096	650,096
Impairment charge	-	-	(78,284)	-	-	(78,284)
Depreciation	(5,643,086)	(135,366,436)	(15,712,237)	(8,610,207)	-	(165,331,966)
Closing net book amount	135,953,018	1,918,862,468	212,283,412	42,938,092	28,796,136	2,338,833,126
At 31 December 2005						
Cost or revaluation	141,320,599	2,053,244,749	227,983,649	51,357,409	29,816,431	2,503,722,837
Accumulated depreciation and impairment	(5,367,581)	(134,382,281)	(15,700,237)	(8,419,317)	(1,020,295)	(164,889,711)
Net book amount	135,953,018	1,918,862,468	212,283,412	42,938,092	28,796,136	2,338,833,126

(All tabular amounts are in LTL unless otherwise stated)

6. Property, plant and equipment (continued)

COMPANY	Buildings	Stuctures and electricity network	Machinery and equipment	Other PPE	Construction in progress	Total
Year ended 31 December 2006						
Opening net book amount	135,953,018	1,918,862,468	212,283,412	42,938,092	28,796,136	2,338,833,126
Additions	282,308	3,345,942	1,049,614	6,371,519	188,295,692	199,345,075
Contribution to the share capital of subsidiaries	(798,801)	(172,218)	(878,635)	(373,345)	-	(2,222,999)
Disposals	(94,546)	(1,919)	(372,108)	(269,349)	-	(737,922)
Retirements	(247,300)	(9,238,755)	(713,133)	(45,761)	-	(10,244,949)
Reclassification	5,349,448	129,474,251	18,687,053	8,386,248	(161,897,000)	-
Reclassification to assets held for sale	(295,078)	-	(448,310)	(69,892)	-	(813,280)
Reversal of impairment provision	-	-	-	-	259,790	259,790
Impairment charge	-	-	(129,801)	(99,640)	-	(229,441)
Depreciation	(5,614,252)	(134,039,076)	(16,947,649)	(9,363,757)	-	(165,964,734)
Closing net book amount	134,534,797	1,908,230,693	212,530,443	47,474,115	55,454,618	2,358,224,666
At 31 December 2006						
Cost or revaluation	145,573,578	2,176,688,387	244,512,583	65,292,931	57,235,418	2,689,302,897
Accumulated depreciation and impairment	(11,038,781)	(268,457,694)	(31,982,140)	(17,818,816)	(1,780,800)	(331,078,231)
Net book amount	134,534,797	1,908,230,693	212,530,443	47,474,115	55,454,618	2,358,224,666

The last revaluation of the Group's and the Company's property, plant and equipment was based on the fair values on 31 December 2003. Revaluation was performed by independent valuers. Valuations of buildings were made on the basis of market value and valuations of other property, plant and equipment – based on depreciated replacement cost approach.

If property, plant and equipment were stated on the historical cost basis, the net book amounts would be as follows:

	GROUP		COMPANY	
	2006	2005	2006	2005
Buildings	144,665,836	144,523,865	128,108,333	128,235,938
Stuctures and electricity network	667,608,662	561,967,284	663,955,792	558,278,911
Machinery and equipment	96,316,134	85,736,282	94,404,873	84,638,861
Other PPE	66,886,462	59,417,445	48,179,029	43,161,559
Construction in progress	55,454,618	28,796,136	55,454,618	28,796,136
	1,030,931,712	880,441,012	990,102,645	843,111,405

(All tabular amounts are in LTL unless otherwise stated)

7. Intangible assets

GROUP

	Software	Other intangible assets	Total
At 1 January 2005			
Cost	6,840,983	264,237	7,105,220
Accumulated depreciation	(3,538,104)	(127,721)	(3,665,825)
Net book amount	3,302,879	136,516	3,439,395
Year ended 31 December 2005			
Opening net book amount	3,302,879	136,516	3,439,395
Additions	1,599,831	184,500	1,784,331
Disposals	(476)	-	(476)
Retirements	(329)	-	(329)
Amortisation	(2,024,645)	(85,706)	(2,110,351)
Closing net book amount	2,877,260	235,310	3,112,570
At 31 December 2005			
Cost	8,034,430	448,737	8,483,167
Accumulated depreciation	(5,157,170)	(213,427)	(5,370,597)
Net book amount	2,877,260	235,310	3,112,570
Year ended 31 December 2006			
Opening net book amount	2,877,260	235,310	3,112,570
Additions	1,736,902	-	1,736,902
Disposals	(2)	-	(2)
Retirements	(101)	-	(101)
Amortisation	(1,871,025)	(99,055)	(1,970,080)
Closing net book amount	2,743,034	136,255	2,879,289
At 31 December 2006			
Cost	9,345,821	448,737	9,794,558
Accumulated depreciation	(6,602,787)	(312,482)	(6,915,269)
Net book amount	2,743,034	136,255	2,879,289

(All tabular amounts are in LTL unless otherwise stated)

7. Intangible assets (continued)

COMPANY	Software	Other intangible assets	Total
At 1 January 2005			
Cost	6,840,983	264,237	7,105,220
Accumulated depreciation	(3,538,104)	(127,721)	(3,665,825)
Net book amount	3,302,879	136,516	3,439,395
Year ended 31 December 2005			
Opening net book amount	3,302,879	136,516	3,439,395
Additions	1,599,831	184,500	1,784,331
Disposals	(476)	-	(476)
Retirements	(329)	-	(329)
Amortisation	(2,024,645)	(85,706)	(2,110,351)
Closing net book amount	2,877,260	235,310	3,112,570
At 31 December 2005			
Cost	8,034,430	448,737	8,483,167
Accumulated depreciation	(5,157,170)	(213,427)	(5,370,597)
Net book amount	2,877,260	235,310	3,112,570
Year ended 31 December 2006			
Opening net book amount	2,877,260	235,310	3,112,570
Additions	1,736,902	-	1,736,902
Disposals	(2)	-	(2)
Retirements	(101)	-	(101)
Amortisation	(1,871,025)	(99,055)	(1,970,080)
Closing net book amount	2,743,034	136,255	2,879,289
At 31 December 2006			
Cost	9,345,821	448,737	9,794,558
Accumulated depreciation	(6,602,787)	(312,482)	(6,915,269)
Net book amount	2,743,034	136,255	2,879,289

The Group and the Company have no internally generated intangible assets.

8. Investments in subsidiaries

	COMPANY	
	2006	**2005**
Beginning of the year	34,685,000	60,000
Contribution to the share capital of subsidiaries	1,958,000	34,625,000
End of the year	36,643,000	34,685,000

In 2006, the Company made a contribution in kind to the share capital of its wholly owned subsidiary Tetas UAB by contributing property, plant and equipment of LTL 1,958,000.

In 2005, the Company made a contribution in kind to the share capitals of its wholly owned subsidiaries Rytra UAB and Elektros Tinklo Paslaugos UAB by contributing property, plant and equipment of LTL 22,968,000 and LTL 11,627,000, respectively. In addition, in 2005 the Company established wholly owned subsidiary Tetas UAB by contributing LTL 30,000 in cash to its share capital.

(All tabular amounts are in LTL unless otherwise stated)

9. Non-current receivables and prepayments

	GROUP		COMPANY	
	2006	2005	2006	2005
Trade receivables	15,104	15,104	15,104	15,104
Less: provision for impairment of trade receivables	(15,104)	(15,104)	(15,104)	(15,104)
Trade receivables - net	-	-	-	-
Prepayments for PPE and IA	4,193,790	850,638	4,193,790	850,638
Mortgage loans granted	3,389,128	4,025,646	3,389,128	4,025,646
	7,582,918	4,876,284	7,582,918	4,876,284

The mortgage loans granted are loans granted to private individuals for the period up to 26 years. The mortgage loans are repayable in instalments by 2027. The loans are secured over residential property. The current portion of mortgage loans amounted to LTL 387,132 (2005: LTL 395,230) and was included within trade and other receivables (Note 11). Fixed interest rate for mortgage loans amounted from 0.1% to 1%. Fair values of mortgage loans are presented below.

	GROUP		COMPANY	
	2006	2005	2006	2005
Fair value of mortgage loans granted	4,546,839	5,621,101	4,546,839	5,621,101
Carrying amount of mortgage loans granted	3,776,260	4,420,876	3,776,260	4,420,876

The fair values of mortgage loans granted are based on cash flows discounted using a rate based on the borrowings rate of 4.99 % (2005: 4.04 %). As at 31 December 2006 the effective interest rate on mortgage loans granted was 7.56 %.

The fair values of non-current receivables and prepayments approximate their carrying values.

10. Inventories

	GROUP		COMPANY	
	2006	2005	2006	2005
Materials and spare parts	5,304,447	3,504,309	2,254,641	634,407
Good for resale	-	1,107,234	-	1,107,234
Electric meters	882,439	907,043	876,963	907,043
Fuel	252,713	231,139	6,295	5,558
Other	549,543	802,726	323,423	580,636
	6,989,142	6,552,451	3,461,322	3,234,878

(All tabular amounts are in LTL unless otherwise stated)

11. Trade and other receivables

	GROUP		COMPANY	
	2006	2005	2006	2005
Trade receivables	84,690,590	85,304,544	83,519,541	84,786,427
Less: provision for impairment of receivables	(11,025,496)	(13,687,216)	(11,006,942)	(13,627,426)
Trade receivables – net	73,665,094	71,617,328	72,512,599	71,159,001
Receivables from subsidiaries (Note 29)	-	-	272,046	215,198
Loans granted to subsidiaries (Note 29)	-	-	4,000,000	2,000,000
Receivables from state controlled entities - net (Note 29)	1,990,794	2,176,390	1,990,794	2,176,390
Current portion of mortgage loans granted (Note 9)	387,132	395,230	387,132	395,230
Prepaid and recoverable taxes, other than income tax (Note 29)	3,011,025	1,183,609	3,011,025	1,183,609
Accrued income for electricity sales	8,580,111	9,106,647	8,580,111	9,106,647
Deferred charges	244,247	202,948	175,670	150,166
Other receivables	2,084,768	1,894,125	2,001,341	1,418,186
	89,963,171	86,576,277	92,930,718	87,804,427

The fair values of trade and other receivables approximate their carrying values.

12. Cash and cash equivalents

	GROUP		COMPANY	
	2006	2005	2006	2005
Cash at bank	589,516	1,472,919	106,452	553,596
Cash on hand	51,884	53,070	51,884	53,070
Cash in transit	920,400	275,200	890,400	275,200
	1,561,800	1,801,189	1,048,736	881,866

Cash and cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	GROUP		COMPANY	
	2006	2005	2006	2005
Cash and cash equivalents	1,561,800	1,801,189	1,048,736	881,866
Bank overdrafts (Note 17)	(42,785,185)	(28,046,269)	(39,437,179)	(28,046,269)
	(41,223,385)	(26,245,080)	(38,388,443)	(27,164,403)

13. Share capital

As at 31 December 2006, the Company's authorised share capital comprised 492,404,653 (2005: 492,404,653) ordinary registered shares with a par value of LTL 1 per share. All issued shares are fully paid. There were no changes in the number of shares in 2006.

On 28 April 2005, the Company's shareholders made a decision to increase the share capital of the Company by LTL 81,811,419 from revaluation reserve by issuing 81,811,419 ordinary registered shares with a par value of LTL 1 per share. The new shares' emission was distributed to the shareholders in proportion to the number of shares owned by them on 28 April 2005.

On 28 June 2005, in order to offset the accumulated losses of the Company the shareholders decided to decrease the share capital by LTL 81,811,419 by cancelling 81,811,419 ordinary shares with the nominal value of LTL 1 each.

(All tabular amounts are in LTL unless otherwise stated)

14. Reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses. As at 31 December 2006 the Group's and the Company's legal reserve amounted to LTL 49,356,490 and LTL 49,240,465, respectively (2005: nil).

Revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. In accordance with the Lithuanian legislation the Company can use revaluation reserve to increase its share capital. It cannot be used to cover losses. As at 31 December 2006 the Group's and the Company's revaluation reserve amounted to LTL 1,166,123,149 (2005: LTL 1,274,286,873) and LTL 1,158,657,074 (2005: LTL 1,265,932,393) respectively.

Other reserves are formed based on the decision of shareholders and can be redistributed on the distribution of next year's profit. As at 31 December 2006 the Group's and the Company's other reserves amounted to LTL 61,850,362 Lt and LTL 60,574,527, respectively (2005: nil).

15. Other non-current liabilities

	GROUP		COMPANY	
	2006	2005	2006	2005
Deferred income of customer connection fees	61,654,560	39,089,123	61,654,560	39,089,123
Government grants relating to purchases of PPE (Note 29)	3,908,130	4,033,540	3,908,130	4,033,540
Long-term employee benefits	918,362	-	918,362	-
Payables for bought out electricity distribution equipment (Note 28)	1,118,531	666,852	1,118,531	666,852
	67,599,583	43,789,515	67,599,583	43,789,515

Long-term employee benefits include bonuses provided to the employees of the Group and the Company based on the years of service.

Government grants relating to purchases of PPE include property, plant and equipment transferred to the Company pursuant the order of the Lithuanian Minister of Economy. Prior to transfer the assets were used by the Company, but the Company did not have an ownership title to them.

16. Trade and other payables

	GROUP		COMPANY	
	2006	2005	2006	2005
Trade payables	66,413,619	68,837,074	58,989,600	61,756,348
Amounts due to subsidiaries (Note 29)	-	-	10,965,814	5,667,889
Amounts due to state controlled entities (Note 29)	49,218,710	41,748,988	49,218,710	41,748,988
Advances received	39,691,266	18,670,315	39,685,259	18,666,488
Deferred income of customer connection fees	2,382,909	3,552,006	2,382,909	3,552,006
Accruals and deferred income	5,227,013	4,131,475	4,028,090	3,283,902
Taxes other than income tax (Note 29)	2,116,674	1,282,058	907,421	666,447
Social insurance contributions (Note 29)	3,266,303	2,768,762	2,392,387	2,154,014
Other current liabilities	476,660	222,835	472,322	220,108
	168,793,154	141,213,513	169,042,512	137,716,190

(All tabular amounts are in LTL unless otherwise stated)

17. Borrowings

	GROUP		COMPANY	
	2006	2005	2006	2005
Non-current				
Bank borrowings	80,362,769	85,318,688	80,362,769	85,318,688
Current				
Bank overdrafts	42,785,185	28,046,269	39,437,179	28,046,269
Bank borrowings	19,054,852	11,394,240	19,054,852	11,394,240
	61,840,037	39,440,509	58,492,031	39,440,509
Total borrowings	142,202,806	124,759,197	138,854,800	124,759,197

All the Group's and the Company's borrowings are bearing floating interest rate with repricing period up to 6 months. No assets are provided as collateral for bank borrowings.

The maturity of non-current borrowings is as follows:

	GROUP		COMPANY	
	2006	2005	2006	2005
Between 1 and 2 years	19,054,852	16,580,346	19,054,852	16,580,346
Between 2 and 5 years	61,307,917	54,920,236	61,307,917	54,920,236
Over 5 years	-	13,818,106	-	13,818,106
	80,362,769	85,318,688	80,362,769	85,318,688

The effective interest rates at the balance sheet date were as follows:

	GROUP		COMPANY	
	2006	2005	2006	2005
Bank overdrafts	4.0%	2.8%	4.0%	2.8%
Bank borrowings	4.3%	3.0%	4.3%	3.0%

The carrying amounts of non-current borrowings bearing floating interest rate and short-term borrowings approximate their fair value.

The carrying amounts of the Group's and the Company's borrowings are denominated in the following currencies:

	GROUP		COMPANY	
	2006	2005	2006	2005
Lithuanian Litas	42,785,185	28,046,269	39,437,179	28,046,269
Euro	99,417,621	96,712,928	99,417,621	96,712,928
	142,202,806	124,759,197	138,854,800	124,759,197

The Group and the Company have the following undrawn borrowing facilities:

	GROUP		COMPANY	
	2006	2005	2006	2005
– Bearing floating interest rate and expiring within one year	26,714,814	67,659,170	22,562,821	67,659,170

The borrowings outstanding as at 31 December 2006 were subject to a number of covenants. Non-compliance with such covenants may result in negative consequences for the Group or the Company, including declaration of default. The management believes that the Group and the Company have complied with those covenants.

(All tabular amounts are in LTL unless otherwise stated)

18. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	GROUP		COMPANY	
	2006	**2005**	**2006**	**2005**
Deferred tax assets:				
– to be recovered after more than 12 months	(169,265)	(181,023)	-	-
– to be recovered within 12 months	(321,623)	(251,380)	-	-
	(490,888)	(432,403)	-	-
Deferred tax liabilities:				
– to be recovered after more than 12 months	205,210,188	225,308,910	205,328,569	225,308,910
– to be recovered within 12 months	20,589,406	23,573,081	20,589,406	23,573,081
	225,799,594	248,881,991	225,917,975	248,881,991
Deferred tax liabilities:	225,308,706	248,449,588	225,917,975	248,881,991

The gross movement on the deferred income tax account is as follows:

	GROUP		COMPANY	
	2006	**2005**	**2006**	**2005**
Beginning of the year	248,449,588	259,710,815	248,881,991	259,710,815
Increase relating to the revalued property, plant and equipment due to changes in tax rates – recognised directly in equity	-	8,394,023	-	8,394,023
Income statement benefit (Note 24)	(23,140,882)	(19,655,250)	(22,964,016)	(19,222,847)
End of the year	225,308,706	248,449,588	225,917,975	248,881,991

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

GROUP

Deferred tax assets	**Impairment of PPE**	**Accrued expenses**	**Revaluation of PPE (value decreased)**	**Deferred income on customer connection fees**	**Total**
At 1 January 2005	(562,905)	(1,280,936)	(18,357,731)	(5,054,880)	(25,256,452)
Charged / (credited) to income statement	198,843	(1,606,248)	3,205,234	(1,581,053)	216,776
At 31 December 2005	(364,062)	(2,887,184)	(15,152,497)	(6,635,933)	(25,039,676)
Charged / (credited) to income statement	334,136	(914,666)	801,097	(3,041,175)	(2,820,608)
At 31 December 2006	(29,926)	(3,801,850)	(14,351,400)	(9,677,108)	(27,860,284)

Deferred tax liabilities	**Tax relief on acquisition of PPE**	**Revaluation of PPE (valued increased)**	**Differences in depreciation rates**	**Total**
At 1 January 2005	23,824,414	261,142,853	-	284,967,267
(Credited) / charged to income statement	(4,292,917)	(21,896,764)	6,317,655	(19,872,026)
Charged to directly to equity	-	8,394,023	-	8,394,023
At 31 December 2005	19,531,497	247,640,112	6,317,655	273,489,264
(Credited) / charged to income statement	(2,375,657)	(24,656,636)	6,712,019	(20,320,274)
At 31 December 2006	17,155,840	222,983,476	13,029,674	253,168,990

18. Deferred income tax (continued)

COMPANY

Deferred tax assets	**Impairment of PPE**	**Accrued expenses**	**Revaluation of PPE (value decreased)**	**Deferred income on customer connection fees**	**Total**
At 1 January 2005	(562,905)	(1,280,936)	(18,357,731)	(5,054,880)	(25,256,452)
Charged / (credited) to income statement	198,843	(1,430,538)	3,205,234	(1,581,053)	392,486
At 31 December 2005	(364,062)	(2,711,474)	(15,152,497)	(6,635,933)	(24,863,966)
Charged / (credited) to income statement	334,136	(868,916)	801,097	(3,041,175)	(2,774,858)
At 31 December 2006	(29,926)	(3,580,390)	(14,351,400)	(9,677,108)	(27,638,824)

Deferred tax liabilities	**Tax relief on acquisition of PPE**	**Revaluation of PPE (valued increased)**	**Differences in depreciation rates**	**Total**
At 1 January 2005	23,824,414	261,142,853	-	284,967,267
(Credited) / charged to income statement	(4,292,917)	(21,896,764)	6,574,348	(19,615,333)
Charged to directly to equity	-	8,394,023	-	8,394,023
At 31 December 2005	19,531,497	247,640,112	6,574,348	273,745,957
(Credited) / charged to income statement	(2,375,657)	(24,656,636)	6,843,135	(20,189,158)
At 31 December 2006	17,155,840	222,983,476	13,417,483	253,556,799

The tax relief on acquisition of property, plant and equipment represents tax credit, which was given to the Company in accordance with Lithuanian tax legislation (valid until 2002) on capital investments to qualifying property, plant and equipment when calculating taxable profit, i.e. the entire cost of acquisition of the item of property, plant and equipment was deducted from the Company's taxable profit in the year of acquisition. However, in accordance with this tax incentive, depreciation expenses may not be deducted from the taxable profit, therefore the Group and the Company recognised deferred tax liability.

Deferred income tax of LTL 24,619,196 (2005: LTL 21,901,005) was transferred from revaluation reserve to retained earnings in the balance sheet of the Group and the Company. This represents deferred tax on the difference between the actual depreciation on property, plant and equipment (items for which value increased on revaluation) and the equivalent depreciation based on the historical cost of property, plant and equipment.

Deferred income tax liabilities of LTL 5,496,450 (2005: LTL 5,202,750) arising on investments in subsidiaries have not been recognised in the Company's financial statements because the Company does not expect to sell its subsidiaries in the foreseeable future and dividends received are not taxable.

19. Revenue

	GROUP		**COMPANY**	
	2006	**2005**	**2006**	**2005**
Electricity sales	907,714,779	841,679,868	908,304,780	842,248,925
Customer connection income	12,448,165	12,006,861	12,449,372	12,006,861
Sales of services	3,884,907	4,660,990	3,883,609	4,660,990
Sales of goods	1,557,569	6,495,437	5,417,469	8,232,073
Other	8,173,739	4,312,602	3,402,741	4,286,697
	933,779,159	869,155,758	933,457,971	871,435,546

20. Finance income

The Group's and the Company's finance income consist of bank interest income of LTL 738,903 and LTL 738,285, respectively (2005: LTL 189,788 and LTL 179,484, respectively).

(All tabular amounts are in LTL unless otherwise stated)

21. Finance costs

	GROUP		COMPANY	
	2006	2005	2006	2005
Interest expense on borrowings	4,122,875	3,737,218	3,989,300	3,726,069
Foreign exchange transaction losses	734	83,392	729	83,392
	4,123,609	3,820,610	3,990,029	3,809,461

22. Other income

	GROUP		COMPANY	
	2006	2005	2006	2005
Dividend income	-	-	927,907	-
Fines received	597,838	645,807	585,282	643,599
Interest income on loans granted	163,517	195,100	335,377	290,725
Other	472,943	14,863	437,963	5,092
	1,234,298	855,770	2,286,529	939,416

23. Other expenses

	GROUP		COMPANY	
	2006	2005	2006	2005
Retirement of property, plant and equipment (Note 6)	10,381,743	7,070,945	10,245,050	7,065,388
Cash collection	5,445,528	4,175,506	5,445,528	4,175,506
Taxes other than income tax (Note 29)	5,279,433	7,134,207	4,415,753	6,497,672
Cost of goods sold	1,550,915	6,398,905	5,157,172	8,123,830
Cost of construction services	2,140,262	3,303,762	2,600,837	3,303,762
Communication	2,509,411	2,691,921	2,221,004	2,365,071
Insurance	2,080,379	890,536	1,915,154	804,713
Cleaning	1,615,496	1,384,117	1,517,844	1,231,902
Asset management costs	1,507,082	2,443,403	1,497,371	2,443,403
Change in impairment provision for accounts receivable	1,423,721	(865,401)	1,445,932	(1,001,728)
Consulting	1,250,977	764,407	1,192,753	691,407
Advertising, public relations	1,217,379	831,631	1,035,137	763,981
Charity	782,900	-	782,900	-
Training	822,849	624,651	707,587	533,156
Stationery	674,468	576,356	598,618	511,396
Operating lease	406,444	521,382	539,905	521,382
Security	796,217	945,045	536,429	770,520
Business trips	598,091	384,086	524,640	357,009
Heating	520,535	517,044	505,067	517,044
Mail services	453,755	461,703	427,510	438,029
Utilities	839,141	603,137	343,840	364,129
Publishing	332,027	359,150	329,209	359,150
Measurements verification	299,315	244,147	281,146	244,147
Social events	274,067	415,898	274,067	415,898
Other	806,002	4,386,529	105,496	1,430,901
	44,008,137	46,263,067	44,645,949	42,927,668

(All tabular amounts are in LTL unless otherwise stated)

24. Income tax expense

	GROUP		COMPANY	
	2006	2005	2006	2005
Current tax	28,258,192	22,999,786	27,653,630	22,161,300
Deferred tax (Note 18)	(23,140,882)	(19,655,250)	(22,964,016)	(19,222,847)
	5,117,310	3,344,536	4,689,614	2,938,453

The tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to the Company:

	GROUP		COMPANY	
	2006	2005	2006	2005
Profit before income tax	29,938,815	22,081,164	29,232,031	19,925,134
Tax calculated at 19% (2005: 15%)	5,688,375	3,312,175	5,554,086	2,988,770
Income not subject to tax	(517,413)	(279,216)	(680,092)	(268,863)
Expenses not deductible for tax purposes	329,182	319,730	28,990	261,984
Charity expenses deductible twice for tax purposes	(309,859)	(6,306)	(297,502)	-
Social tax effect	(72,975)	(1,847)	84,132	(43,438)
Tax charge	5,117,310	3,344,536	4,689,614	2,938,453

Corporate income tax in Lithuania increased from 15% in 2005 to 19% in 2006. In 2005, the Law on Social Tax was adopted, which provides that the tax base for this tax is taxable profit calculated in accordance with the procedure stipulated in the Lithuanian Law on Corporate Profit Tax. Social tax rates are set at 4% for 2006 and 3% for 2007. The Group and the Company treat the social tax as an increase in corporate income tax rate because this tax is calculated using the same base as for the corporate income tax.

25. Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	GROUP		COMPANY	
	2006	2005	2006	2005
Profit attributable to equity holders of the Company	24,821,505	18,736,628	24,542,417	16,986,681
Weighted average number of ordinary shares in issue	492,404,653	506,039,890	492,404,653	506,039,890
Basic earnings per share (LTL per share)	0.050	0.037	0.050	0.034

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of potentially dilutive ordinary shares which can be issued, as disclosed in Note 28, for the contributions in kind of electricity distribution equipment that are under common use by their owners and the Company. As at 31 December 2006 the Company's commitment to buy out electricity distribution equipment by issuing shares based on the requests received by the Company from the owners of those equipment amounted to approximately LTL 50,100 thousand. The commitment was calculated based on the market prices of the equipment at the dates on which the owners submitted their requests to the Company. As at the date of the issuance of these financial statements the decision to increase the share capital was not made by the shareholders of the Company, therefore the management was not able to estimate how many new shares will be issued and was not able to calculate with sufficient certainty their dilutive impact.

26. Dividends per share

At the Annual General Shareholders' meeting on 26 April 2006, a dividend in respect of 2005 of LTL 0.07 per share amounting to a total dividend of LTL 34,468,326 were declared. A dividend in respect of the year ended 31 December 2006 of LTL 0.07 per share amounting to a total dividend of LTL 34,468,326, is to be proposed at the Annual General Meeting on 25 April 2007. These financial statements do not reflect this dividend payable.

27. Contingencies

Tax audits

No full-scope tax audits were carried out by the tax authorities at the Company and its subsidiaries for the years 2003-2006. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Financial guarantees

The Company issued guarantee to AB SEB Vilnius Bank amounting to LTL 5,000,000 in order to guarantee loan granted by the bank to subsidiary. The balance of the loan amounted to LTL 2,790,349 as at 31 December 2006. the agreement is valid until 8 June 2007.

Litigations and claims

The Group and the Company are involved in several litigations and have several claims against them for the matters arising in the ordinary course of business. In the opinion of the management, the outcome of these claims will not have a material adverse effect on the Group's and the Company's operations.

28. Commitments

Buy out of electricity distribution equipment that are under common use by the owner and the Company

Pursuant to the order of the Lithuanian Minister of Economy, dated 3 December 2003 and as amended on 15 February 2005, the Company is obliged to buy out from entities and residents electricity distribution equipment that are under common use of them and the Company. The Company can buy out that equipment in one of the following ways: either by transferring its newly issued shares to the owners of those equipment, the issue price of which should be paid by way of contributions in kind (i.e. electricity equipment under common use), or by signing agreements on sale-purchase of electricity equipment under common use. As at 31 December 2006 the Company's commitment to buy out electricity distribution equipment by paying cash and by issuance of shares based on the requests received by the Company from the owners of those equipment amounted to approximately LTL 4,200 thousand and approximately LTL 50,100 thousand, respectively (2005: LTL 6,946 thousand and LTL 50,100 thousand, respectively). The commitment was calculated based on the market prices of the equipment at the dates on which the owners submitted their requests to the Company. The time for submitting request to buy out electricity equipment expired on 31 December 2005. The Company has to settle accounts with the owners of those electricity distribution equipment no later than 31 December 2010. In accordance with legislation of the Republic of Lithuania the issuance of new shares must be approved by the current shareholders of the Company. At the date of the issuance of these financial statements such approval has not been made and no new shares of the Company have been issued in relation to buy out of electricity distribution equipment under common use.

In January 2006 one of the owners of commonly used electricity distribution equipment initiated legal proceedings against the Company and claimed that the Company must issue shares in exchange of contribution kind, i.e. electricity equipment under common use. On 23 November 2006 the court made a decision to oblige the Company to convene a general shareholders' meeting in which the increase in share capital must be considered. Such shareholders' meeting will be convened by the Company on 25 April 2007.

(All tabular amounts are in LTL unless otherwise stated)

29. Related-party transactions

As at 31 December 2006 the Government was the majority shareholder of the Company. For the purposes of the related party disclosure the Government includes state authorities and excludes local authorities. Profit-oriented state controled entities are related parties to the Group and the Company.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	GROUP		COMPANY	
	2006	**2005**	**2006**	**2005**
Subsidiaries	-	-	9,527,452	22,979,140
State controlled entities	19,437,207	20,951,051	19,437,207	20,951,051
	19,437,207	20,951,051	28,964,659	43,930,191

(b) Purchases of goods and services

	GROUP		COMPANY	
	2006	**2005**	**2006**	**2005**
Subsidiaries	-	-	84,183,867	68,337,308
State controlled entities	509,952,161	449,340,696	509,952,161	449,340,696
	509,952,161	449,340,696	594,136,028	517,678,004

(c) Tax expenses – the Government

	GROUP		COMPANY	
	2006	**2005**	**2006**	**2005**
Income tax (Note 24)	5,117,310	3,344,536	4,689,614	2,938,453
Taxes, other than income tax (Note 23)	5,279,433	7,134,207	4,415,753	6,497,672
Social security and other payroll related contributions	26,764,121	22,672,032	2,029,796	1,779,258
	37,160,864	33,150,775	11,135,163	11,215,383

(d) Key management compensation

	GROUP		COMPANY	
	2006	**2005**	**2006**	**2005**
Salaries and other short-term employee benefits	1,461,803	1,209,209	1,461,803	1,209,209

Key management includes 7 (2005: 7) members of the management of the Company. As at 31 December 2006 mortgage loan at a fixed interest rate of 0.5% granted to one member of key management personnel of the Company amounted to LTL 23,112 (2005: LTL 23,112).

During 2006 total compensation to the Company's Board members or their delegating institutions amounted to LTL 35,000 (2005: nil). As at 31 December 2006 mortgage loan at a fixed interest rate of 0.1% granted to one member of board amounted to LTL 82,125 (2005: LTL 87,048).

(e) Year-end balances arising from sales/purchases of goods/services

Receivables from related parties (Note 11):	GROUP		COMPANY	
	2006	**2005**	**2006**	**2005**
Trade receivables from state controlled entities	9,079,136	7,023,919	9,079,136	7,023,919
Less provision for impairment of receivables	(7,088,342)	(4,847,529)	(7,088,342)	(4,847,529)
Trade receivables from state controlled entities – net	1,990,794	2,176,390	1,990,794	2,176,390
Subsidiaries	-	-	272,046	215,198
	1,990,794	2,176,390	2,262,840	2,391,588

(All tabular amounts are in LTL unless otherwise stated)

29. Related-party transactions (continued)

Amounts due to related parties (Note 16):

	GROUP		COMPANY	
Amounts payable to related parties:	2006	2005	2006	2005
Subsidiaries	-	-	10,965,814	5,667,889
State controlled entities	49,218,710	41,748,988	49,218,710	41,748,988
	49,218,710	41,748,988	60,184,524	47,416,877
Government grants relating to purchases of PPE (Note 15)	3,908,130	4,033,540	3,908,130	4,033,540

(f) Year-end balances arising from taxes paid/payable – the Government

	GROUP		COMPANY	
Prepaid taxes:	2006	2005	2006	2005
Prepaid current income tax	214,567	-	83,652	-
Prepaid taxes, other than income tax (Note 11)	3,011,025	1,183,609	3,011,025	1,183,609
	3,225,592	1,183,609	3,094,677	1,183,609

Taxes payable:	GROUP		COMPANY	
	2006	2005	2006	2005
Current income tax	9,181,741	16,243,204	8,878,846	15,404,718
Social security contributions (Note 16)	3,266,303	2,768,762	2,392,387	2,154,014
Taxes other than income tax (Note 16)	2,116,674	1,282,058	907,421	666,447
	14,564,718	20,294,024	12,178,654	18,225,179

Deferred taxes (Note 18):	GROUP		COMPANY	
	2006	2005	2006	2005
Deferred income tax assets	490,888	432,403	-	-
Deferred income tax liabilities	225,799,594	248,881,991	225,917,975	248,881,991

(g) Loans to related parties – subsidiaries (Note 11)

	COMPANY	
	2006	2005
Beginning of year	2,000,000	-
Loans advanced during the year	2,000,000	2,000,000
Interest income	138,789	13,238
Interest received	(138,789)	(13,238)
End of year	4,000,000	2,000,000

The loans advanced to subsidiaries are due on 28 December 2007 and carry an interest of 4.37% (2005: 3,22%).

30. Non-cash transactions

During the year ended 31 December 2006 the main non-cash transactions in the Company's financial statements were contributions in kind to the share capitals of subsidiaries amounting to LTL 1,958,000 (2005: LTL 34,595,000). There were no significant non-cash transactions in the consolidated financial statements of the Group for the year ended 31 December 2006.

31. Reclassification of comparative amounts

When preparing financial statements for the year ended 31 December 2006 the Group and the Company reviewed classification and general presentation of balance sheet and income statement items in the financial statements for the year ended 31 December 2005. As a result the the following reclassifications were made:

	As at 31 December 2005					
	GROUP			COMPANY		
Balance sheet	**Before reclassification**	**Reclassification**	**After reclassification**	**Before reclassification**	**Reclassification**	**After reclassification**
Reclassification of prepayments for PPE						
Property plant and equipment	2,377,013,371	(850,638)	2,376,162,733	2,339,683,764	(850,638)	2,338,833,126
Non-current receivables and prepayments	4,025,646	850,638	4,876,284	4,025,646	850,638	4,876,284
Reclassification of deferred tax asset						
Deferred income tax assets	-	432,403	432,403	-	-	-
Deferred income tax liabilities	248,449,588	432,403	248,881,991	-	-	-

	For the year ended 31 December 2005					
	GROUP			COMPANY		
Income statement	**Before reclassification**	**Reclassification**	**After reclassification**	**Before reclassification**	**Reclassification**	**After reclassification**
Revenue	853,686,288	15,469,470	869,155,758	854,255,786	17,179,760	871,435,546
Other income	1,917,011	(1,061,241)	855,770	-	939,416	939,416
Expenses	(832,263,965)	(10,146,606)	(842,410,571)	(834,077,116)	(12,776,270)	(846,853,386)
Other gains (losses) - net	2,270,527	(4,159,498)	(1,888,971)	3,084,993	(5,051,458)	(1,966,465)
Finance costs - net	(3,528,697)	(102,125)	(3,630,822)	(3,338,529)	(291,448)	(3,629,977)

The management believes that amended classification of balance sheet and income statement items better reflects substance of amounts and transactions.

(All amounts are in LTL unless otherwise stated)

AB RYTŲ SKIRSTOMIEJI TINKLAI
CONSOLIDATED ANNUAL REPORT

This Annual Report of Rytų Skirstomieji Tinklai AB (hereinafter "the Company") has been prepared in accordance with Article 24-1 of the Lithuanian Law on Financial Statements of Entities and Article 9-1 of the Lithuanian Law on Consolidated Accounts of Entities.

Information contained in the Annual Report designated for the Company's shareholders, creditors and other stakeholders describes the Company's performance over the financial year 2006, the Company's operation plans and forecasts and all other statutory information required to be disclosed in the Annual Report in accordance with the effective laws.

The Company's principal activities are electricity distribution through medium and low voltage electricity network and electricity supply (sale) to the consumers in the eastern part of Lithuania. The Company is an operator of the distribution network responsible for the development and maintenance of electricity network, new customer connection, and installation and maintenance of electricity accounting devices (metres).

In addition, the Company is a public supplier, which supplies electricity to all residents and other applicant consumers within the territory of its service.

Key data of the Company are given in Table 1.1 below.

Table 1.1. Information about the Company.

The Company's name	**Rytų Skirstomieji Tinklai AB**
The Company's code	1108 70890
Authorised share capital	LTL 492,404,653
Share capital paid up	LTL 492,404,653
Address	P. Lukšio g. 5B, LT-08221 Vilnius
Telephone	(8~5) 277 75 24
Fax	(8~5) 277 75 14
E-mail address	info@rst.lt
Website address	www.rst.lt
Legal and organisational form	public company, private legal entity with limited civil liability
Registration date and place	31 December 2001, Lithuanian Ministry of Economy
Data of the Company are compiled and the register	Register of Legal Entities

The Company has its head office and four regional structural units located in Vilnius, Panevėžys, Alytus, and Utena. The Company has 25 territorial customer service centres.

The Company has five trade unions encompassing almost half of all employees. These trade unions participate in negotiations with the employer on such matters as social guarantees and review the provisions of the collective employment contract.

For the purpose of streamlining the Company's principal activities (electricity distribution and supply) and improve their efficiency, the Company established 3 subsidiaries during 2004 and 2005, namely Elektros Tinklo Paslaugos UAB, Rytra UAB, and TETAS UAB (hereinafter "the Subsidiaries").

Elektros Tinklo Paslaugos UAB provides electricity network and related equipment repair and maintenance services, and low voltage electricity network construction services.

Rytra UAB provides transport lease services, leases construction and special purpose machinery, heavy and passenger motor vehicles.

TETAS UAB provides substation, distribution and transformer station electricity equipment repair and maintenance, and installation services.

The Company together with its Subsidiaries constitute Rytų Skirstomieji Tinklai AB group of companies (hereinafter “the Group“). The Company holds proprietary rights to all the shares of the Subsidiaries. Priority objective of the Subsidiaries is to render services to the Group along with new customers continuously added to their customer base. Key data of the Subsidiaries are given in Table 1.2 below.

Table 1.2. Information about the Subsidiaries.

	Elektros Tinklo Paslaugos UAB	**Rytra UAB**	**TETAS UAB**
Head office address	Vilnius City Municipality Vilnius, Motorų g. 2	Vilnius City Municipality Vilnius, Motorų g. 2 / Geologų g. 16	Panevėžys City Municipality, Panevėžys, Senamiesčio g. 102B
Registration date and place	8 December 2004, Register of Legal Entities	8 December 2004, Register of Legal Entities	8 December 2005, Register of Legal Entities
Company code	3000 72351	3000 72305	3005 13148
Authorised share capital, LTL	11,657,000	22,998,000	1,988,000
Type and category of shares owned by the issuer	Ordinary registered shares	Ordinary registered shares	Ordinary registered shares
Number of shares	11,657,000	22,998,000	1,988,000
Nominal value per share, LTL	1	1	1
Percentage of the issuer‘s proprietary votes during the general meetings of shareholders of these subsidiaries, %	100	100	100

Since over 90 per cent of revenue is derived by the Subsidiaries from the Group, consolidated performance indicators do not significantly differ from the Company‘s performance indicators, therefore, the Annual Report comprises a consolidated overview of performance of both, the Company and the Group.

1. Objective overview of the financial position, performance and development, description of exposure to key risks and contingencies

In 2006, the Company earned LTL 24.5 million in net profit, which is more by LTL 7.6 million or 44.5% as compared to 2005. In 2006, consolidated net profit of the Group amounted to LTL 24.8 million or more by LTL 6.1 million or 32.5% as compared to 2005.

Given a constantly growing local economy and rapidly developing real estate market, 10,615 new customers were connected by the Company during 2006, and the total number of customers increased up to 727,598 as at the end of 2006. In 2006, electric power of newly connected customers was 126.6 MW, which is higher by 27.2% or 27 MW.

(All amounts are in LTL unless otherwise stated)

Revenue and expenses. In 2006, the Company‘s revenue amounted to LTL 935.7 million, which is more by LTL 63.4 million or 7.3% as compared to 2005. Growth of revenue was caused by higher quantity of electricity sold by 7.9%.

In 2006, revenue of the Subsidiaries increased as well (by 3.0%, 16.5% of Elektros Tinklo Paslaugos UAB and Rytra UAB, respectively, TETAS UAB started its activities in 2006) and earned profit. Key performance indicators of the Subsidiaries are given in Table1.3 below.

Table 1.3. Key financial performance indicators of the Subsidiaries for the year 2006, million LTL.

	Elektros Tinklo Paslaugos UAB	Rytra UAB	TETAS UAB
Sales revenue	59.1	26.4	15.7
Net profit	0.5	0.4	0.1
Assets	22.7	30.8	6.7
Investments	2.0	6.2	0.3

In 2006, consolidated revenue of the Group increased by LTL 65.0 million or 7.5% as compared to 2005 and reached LTL 935.0 million.

In 2006, the Company‘s variable expenses (electricity purchase and transmission expenses) were higher by 8.1% or LTL 39.7 million as compared to 2005 and amounted to LTL 526.3 million. In 2006, the Company‘s relatively fixed expenses amounted to LTL 377.2 million and were higher by 4.7% or LTL 17.0 million as compared to 2005. Increase in these expenses was caused by higher repair and maintenance costs, payroll and related expenses. In 2006, consolidated expenses of the Group amounted to LTL 901.9 million, which is higher by LTL 59.5 million or 7.1% as compared to 2005.

Investments. For the purpose of improving the quality of assets used for electricity distribution and ensuring business development through connection of new customers to the distribution networks, and for improving the efficiency of business operations and the quality of services rendered, the Company made investments in acquisition of new and reconstruction of the available non-current assets. In 2006, the Company‘s investments in non-current assets amounted to LTL 201.1 million, which is more by LTL 43.8 million or 27.8% as compared to 2005. The main trends of investments are disclosed in Table 1.4 below.

Table 1.4. The Company‘s investments in non-current assets

Type of investments	2006	2005	Investment structure in 2006	Change over 2006/2005
	LTL million	LTL million	%	%
New customer connection	79.2	57.1	39.4	38.7
Transformer substations and distribution stations	40.3	30.5	20.0	31.9
0.4-10 kV electricity network	41.6	37.1	20.7	12.3
Communication and management systems	12.3	4.7	6.1	163.9
Computer hardware and control equipment	6.8	7.9	3.4	-13.9
Other	20.9	20.1	10.4	4.0
Total	201.1	157.3	100.0	27.8

Connection of electricity equipment of new customers accounts for over one third of all investment made during 2006 (LTL 79.2 million). As a result of higher electric power of new customers connected to the distribution network, these investments increased by LTL 22 million or 39% as compared to 2005.

The Company‘s investments in its subsidiary TETAS UAB amounted to LTL 2.0 million, which represent payment for the shares of this subsidiary by way of in-kind contribution.

In 2006, investments of the Subsidiaries for acquisition of non-current assets amounted to LTL 8.5 million. The major portion of this amount represents investments for renovation of vehicle fleet of Rytra UAB. In 2006, consolidated investments of the Group amounted to LTL 209.0 million, which is more by LTL 45.2 million as compared to 2005.

Equity, liabilities and assets. There were no significant changes in the structure of equity and liabilities in 2006, whereas the value of assets increased. In 2006, the Group‘s assets increased by LTL 29.0 million and amounted to LTL 2,508.9 million at the year end. The Company‘s assets over the reporting period increased by LTL 29.8 million and mounted to LTL 2,503.6 million at the year end. As a result of increased investments, the Group‘s non-current assets increased by LTL 24.9 million in 2006 and amounted to LTL 2,409.4 million at the year end. In 2006, current assets increased by LTL 4.2 million and amounted to LTL 99.5 million at the year end. Such change was caused by increase in amounts receivable as a result of growth of revenue. In 2006, consolidated shareholders‘ equity of the Group decreased by LTL 9.6 million and amounted to LTL 1,895.3 million at the year end. Such change was caused by profit appropriation for 2005, which was higher than net profit for 2006. As a result of increased investments in 2006 and higher quantities of electricity purchased, the Group‘s current liabilities increased by LTL 42.9 million and reached LTL 239.8 million.

Electricity pricing. In 2006, newly structured electricity tariffs and distribution prices were developed and announced to the Company‘s customers (legal entities) connected to low voltage distribution network. With effect from 1 January 2007, the Company offered for this group of customers optional binary payment plans consisting of two components (power component and energy component). As a result, with effect from 2007, all legal entities may choose the most acceptable payment plans considering their individual needs. Introduction of power component should prompt the customers to reject the available excess power, which would enable the Company to ensure an optimal planning of network development based on realistic parameters of use of network.

Customer service. Throughout 2006, significant attention was paid to the improvement of the quality of customer service. In 2006, a short dial 1802 number was introduced for customer service, which is available to the customers 24 hours. Moreover, customer service standards were implemented, staff qualification was improved, and customer service centres were renovated.

Changes in organisational structure. For optimal management and higher efficiency, in 2006 the Company integrated the activities of communication and management system units, and with effect from 1 January 2007 the accounting units were integrated as well.

Risk factors. When performing its activities, the Group is exposed to economic, political, technical and other risk factors.

Economic risk factors. Key economic risk factors are as follows:

- dependence on the major producer in Lithuania – Ignalina Nuclear Power Plant,
- effect of liberalization of electricity market,
- risk of changes in the prices of machinery and equipment and materials used in electricity network maintenance and construction.

The major portion of electricity purchases are made by the Company directly from Ignalina Nuclear Power Plant, therefore it is exposed to the risk of unscheduled interruption of activities of Ignalina Nuclear Power Plant. As a result of interruption of activities of this nuclear power plant, the Company would be forced to purchase electricity from alternative sources at a higher price. This leads to the risk of

higher price of the major component of costs – electricity purchased. It is expected that decommissioning of Ignalina Nuclear Power Plant in 2009 will have a significant impact on the price of electricity.

With effect from 1 July 2007, the status of eligible customers (opportunity to choose electricity supplier and sign electricity purchase-sale agreement) will be granted to all customers (including residents). This increases the risk of sustaining the current electricity supply market share. For the purpose of maintaining and developing its distribution network, the Company purchases electricity equipment and materials, the prices of which are affected by market trends. The Company‘s costs incurred in relation to network maintenance and investments in electricity network, as well as its overall financial performance depend on the prices of these goods.

Political risk factors. Rytų Skirstomieji Tinklai AB acts in energy sector, the activities wherein are substantially regulated under the Lithuanian Law on Electricity Energetics. Consequently, it is necessary to consider the effect of possible amendments to the aforementioned law and other regulatory legislation on the Company‘s operations and performance.

National Control Commission for Prices and Energy exercises control over the Company‘s licensed activities by setting public tariff caps for licensed services, monitoring the application of public prices and tariffs and approves the fees for connection of electricity equipment. The Company's Board approves specific electricity tariffs for the end customers.

Furthermore, in view of the fact that the Company's major shareholder is the Lithuanian state holding 71.35 per cent of shares of the Company, it might be presumed that the state‘s decision to announce its judgement on the Company‘s privatisation would have a significant impact on the Company‘s operations and stock price. The state representatives being the Board members of the Company also have direct influence over the Company‘s governance and approval of specific electricity tariffs for the customers, therefore, the Company‘s operations, decisions and performance might be dependent on state politics in social, economic and other matters.

Technical – technological risk factors. As a result of distribution of electricity through electricity network, technological costs and commercial losses are incurred. Technological costs depend on technical characteristics and optimal use of the distribution network. Commercial losses are incurred as a result of unauthorised connection to power grid and embezzlement of electricity by way of unlawful damage to electricity metres and accounting system elements. For the purpose of eliminating commercial losses caused by external entities, the Company is actively involved in theft prevention activities, and moves electricity accounting devices to the places more easily accessible to an operator of distribution network.

One of the major factors that feature the activities of an operator of the distribution network is reliability of electricity distribution, which is assessed with reference to duration and number of disconnections per customers. Due to unexpected external factors, such as natural disasters, there is a risk that a reliable supply of electricity will not be ensured for the customers and the Company will loose planned revenue, and elimination of relevant damages will result in additional maintenance costs.

Social risk factors. During the service of energy consumers, maintenance and modernisation of electricity network, the Company faces a significant shortage of skilled employees on the market, and there is a risk of turnover of existing personnel, which might be explained by both, external and internal reasons. Given a high emigration level and a growing demand for labour force, unemployment level decreases in a country. These factors predetermine increase in salary levels on a local labour market. Since the Company acts on a regulated market, it has limited possibilities to compete on the labour market.

Ecological risk factors. Rytų Skirstomieji Tinklai AB is a company engaged in electricity distribution. Unlike electricity generation plants, environment pollution caused by it is low. The likelihood of restrictions or suspension of the Company's operations due to environmental damage is low.

Borrowing repayment risk factors. In line with the guidelines of previous year borrowing programmes, the Company has evenly distributed the repayable borrowings in time perspective, therefore, the risk of repayment of borrowings is not expected. Loans and interest are repayable to credit institutions in due time as stipulated in the contracts.

2. Analysis of financial and non-financial performance, information on environmental and personnel-related issues

Electricity sales and prices. In 2006, the Company sold 3,972.5 million kWh of electricity to its customers, which is more by 290.8 million kWh or 7.9% as compared to 2005. The record growth of sales was achieved for the following reasons:

- cold winter in 2006 (January and February)
- lower technological distribution costs and commercial losses by 1.7%,
- overall growth of local economy resulting in connection of new customers and increase of sales.

Electricity selling tariffs and electricity prices remained unchanged in 2006. These prices were lower than public tariff caps set by the National Control Commission of Prices and Energy for electricity prices and prices of electricity distribution services.

Growth of revenue was mainly caused by increased quantity of electricity sold.

Electricity purchases and prices. As a result of increased sales of electricity in 2006, the Company purchased 4,380.1 million kWh of electricity, which is more by 5.9% or 242.7 million kWh as compared to 2005. Due to lower technological distribution costs and commercial losses, the growth rate of electricity purchased was lower than the growth rate of electricity sales by 2.0%.

In 2006, the average electricity purchase price was 8.58 cents/kWh, which is higher by 0.23 cents/kWh as compared to 2005 and higher by 0.10 cents/kWh as compared to the planned average electricity production price in a country approved by the National Control Commission of Prices and Energy. A higher price of electricity in 2006 was due to prolonged term of scheduled repair works at Ignalina Nuclear Power Plant, unscheduled breakage of generator at this plant, and higher price of electricity sold by other producers due to increasing prices of energy resources.

Personnel. Skilled, educated and motivated personnel can ensure the effectiveness and success of the Company‘s operations. The Company seeks to create safe work environment, motivation system and offer entertaining social events so that each employee could feel being an important part of Rytų Skirstomieji Tinklai. The main social guarantees offered to employees are defined under a collective employment contract which is reviewed every two years. In 2006, the collective contract provided for minimal annual indexation of salaries at previous year inflation level for all employees.

A special focus was paid on Professional development of personnel. In 2006, training courses were attended by 1,728 employees, i.e. over 80% of all employees of the Company. The Company allocates more and more funds for personnel training, provides support to employees continuing their academic studies, i.e. provides scholarship, pays for studies, and provides paid leave for studies. With professional development of personnel, support from the EU structural funds is obtained. In March 2006, an agreement was signed with the European Social Fund for obtaining the support. The total value of the

project *Professional Development and Improvement of Computer Literacy of Employees* was LTL 2.6 million. The support apportioned from the structural funds amounted to LTL 1.4 million.

As at 31 December 2006, the Company had 2,141 employees as compared to 2,100 employees in the beginning of the year. The Company faces a growing turnover of personnel. In 2006, the personnel turnover ratio increased up to 5.5% as compared to 3.8% in 2005.

Table 2.1. Number of employees on the register.

	As at 1 January 2006	**As at 31 December 2006**
The Company	2 242	2 139
Elektros Tinklo Paslaugos UAB	576	568
Rytra UAB	235	252
TETAS UAB	1	133
The Group	3 054	3 092

As a result of observing the changes on a local labour market during 2006, where an average work pay was raised by 17%, the Company increased remuneration level of employees and a part of profit earned in 2005 was apportioned for bonuses to employees, and more funds were allocated for investment life insurance of employees. These factors caused increase in employee benefits in 2006.

Ratios. As a result of increase in the Company‘s and the Group‘s consolidated net profit in 2006, most of the ratios reflecting the performance of business activities improved as well.

Table 2.2. The Company's and the Group's ratios.

	Group		**Company**	
Performance ratios	**2006**	**2005**	**2006**	**2005**
Net profit margin = net profit / sales * 100	2.7%	2.2%	2.6%	1.9%
EBITDA margin = EBITDA / total revenue *100	22.3%	22.7%	21.5%	21.9%
Debt-to-equity ratio = total debts / total equity	0.32	0.30	0.32	0.30
Return on equity ratio = net profit / equity	1.3%	1.0%	1.3%	0.9%
Net earnings per share = net earnings / number of shares	0.050	0.037	0.050	0.034

In 2006, the Group‘s net profit margin increased by 0.5% and was 2.7%. Return on equity improved by 0.3% and was 1.3%. The Group‘s net earnings per share was LTL 0.05, i.e. more by LTL 0.013 as compared to 2005.

The Group‘s EBITDA margin, which measures the portion of EBITDA (earnings before interest, taxes, depreciation and amortization) in total revenue, decreased by 0.4% down to 22.3 %.

In 2006, debt-to-equity ratio, which measures the level of liabilities, increased by 0.02 up to 0.32 mainly due to increased investments and expenses. Irrespective of increase of this ratio, the Company‘s and the Group‘s debt level after revaluation of non-current assets remains low. The major portion of assets is financed from own equity, which is higher 3 times than the existing liabilities.

The changes in the Company‘s ratios were in line with the trends of changes in the Group, and their values were similar.

3. References to and explanations of data reported in the annual financial statements

Details of the Company‘s and the Group‘s financial performance are disclosed under the first and the second sections of this Annual Report.

4 - 7. Number of own shares held or acquired by the Group and transactions in own shares

The Group had no transactions in own shares, and did not acquire any own shares.

8.Information on the branches and representative offices

The Group does not have any branches or representative offices.

9. Significant events subsequent to the end of the previous financial year

With effect from 1 January 2007, new electricity prices and tariffs of the Company and their application procedure came into force, which provides for higher electricity tariffs to the end customers.

10. Operation plans and forecasts

It is planned that the Company‘s sales revenue in 2007 will amount to LTL 1,031.8 million, i.e. more by LTL 111.0 million or 12.1% as compared to 2006. The group‘s forecast of sales revenue is LTL 1,032.0 million.

It is expected that in 2007 electricity sales will increase by 3.1%, and the average electricity selling tariff will increase by 1.7 cents/kWh (VAT excl.) as a result of higher prices of electricity production and transmission services.

It is forecasted that in 2007 net profit will amount to LTL 21.7 million, i.e. it will remain at the same level as that in 2006. In 2007, the Group will seek to earn profit at a level not lower than that in previous year.

As a result of rapid increase in the number of customers and growing power of new customers connected to the distribution network, and installation of automated supervisory control system, higher investments in non-current assets are expected in 2007 as compared to 2006. The main trends of investments remain the same:

- connection of electricity equipment of new customers,
- reconstruction of transformer substations,
- development of 0.4-10 kV electricity network.

The Company‘s principal objectives for 2007 include improvement of customer service quality and reliability of electricity supply and distribution.

11. Information on research and development activities

The Group was not engaged in any research and development activities.

(All amounts are in LTL unless otherwise stated)

12. When an entity uses financial instruments and they are significant for the assessment of the entity's assets, equity, liabilities, financial position and results of operations, the entity discloses the objectives of its financial risk management, hedging instruments in respect of its main categories of transactions qualifying for hedge accounting, and the entity's exposure to price risk, credit risk, liquidity risk and cash flow risk

To manage its financial risks and minimize variability of interest expenses, given an obvious growth trend in interest rates, in 2006 the Company used financial derivative instruments as stipulated in its borrowing programme, namely interest rate management instrument, and in the middle of 2006 the Company entered into interest rate swap transaction. Interest rate swap transaction allows to fix interest rate and keep it at one level during the entire period of the borrowing. In case of such transactions, for the agreed period of time and at agreed intervals the Company and the bank exchange fixed and floating interest rate cash flows. Such risk management enables the Company to determine precisely the cash flows necessary to service the debt, prevent possible losses and mitigate non-operational risks.

The Company has prepared the form of compliance with the principles and recommendations of the Governance Code, which is enclosed as Annex to this Consolidated Annual Report.

Rimantas Milišauskas
General Director

16 April 2007

Rytų Skirstomieji Tinklai AB Report on Compliance with the Governance Code of the Companies Listed on the Vilnius Stock Exchange

The public company Rytų Skirstomieji Tinklai AB, following Article 21.3 of the Lithuanian Law on Securities 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 (VSE) 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 company’s development strategy and objectives by declaring how the company intends to meet the interests its shareholders and optimize shareholder value.	Yes	The Company‘s board of directors has approved business strategic guidelines for Rytų Skirstomieji Tinklai AB group for the years 2006-2010, which describe the Company‘s strategy and principal business objectives. The Company‘s business strategy provisions that do not disclose information of confidential nature are made public on the Company‘s website, and in the annual report.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company‘s board of directors makes the most important strategic decisions that affect the optimization of shareholder value (segregation of the Company‘s business functions, establishment of subsidiaries, and other actions improving the Company‘s business efficiency and increasing profits).
1.3. A company’s supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company has the supervisory board, the board of directors, and the chief executive officer (Art. 7.1 of the Company‘s Articles of Association). These bodies co-operate in order to attain maximum benefit for the Company and its shareholders. The Company's director general is a member of the Company’s board of directors.
1.4. A company’s supervisory and management bodies should ensure that the rights and interests of persons other than the company’s shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company’s operation, are duly respected.	Yes	The Company‘s bodies duly respect the rights and interests of persons participating in or connected with the Company‘s operation: 1. Employees – since the date of its establishment, the Company has been acting in co-operation and social partnership with the representatives of the Company‘s employees (additional funds are allocated for the purpose of ensuring the fulfilment of the collective contract and provision of additional incentives to employees on the decision of the Company‘s Board). 2. Creditors – the Company assumes and fulfils its financial and other commitments based on the borrowing programme approved by the Board). 3. Clients – the Company takes measures to

		improve the quality of service rendered to electricity consumers and other individuals (development of customer service channels on the Internet (via the Company‘s website) and by phone (a short dial number and a contract centre have been introduced), improvement of customer service conditions at the Company‘s structural units, installation of new information systems). 4. Other individuals – upon the decision of the Company‘s general meeting of shareholders, a part of the Company‘s profit is allocated for support (public activities of art, culture, sports, etc.).
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	Pursuant to Art. 7.1 of the Company‘s Articles of Association approved during the general meeting of shareholders on 28 June 2005, the Company has set up the following bodies: general meeting of shareholders, the supervisory board, the board of directors, and a chief executive officer.
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	Pursuant to Art. 9.5 of the Company‘s Articles of Association, the Company‘s supervisory board is responsible for the effective supervision of the activities of the Company‘s management bodies (elects members to and recalls them from the board of directors; when the Company operates at a loss, the supervisory board considers whether the members of the board of directors are eligible for their current functions; monitors the activities of the board of directors and chief executive officer; submits proposals and comments to the general meeting of shareholders in relation to the Company‘s business strategy, the performance of the board of directors and chief executive officer; fulfils other functions prescribed under the laws and other regulatory legislation). Pursuant to Art. 10.3 of the Company‘s Articles of Association, the Company‘s board of directors is responsible for an adequate strategic management of the Company (approves the Company‘s business strategy, makes critical decisions prescribed under the laws in relation to

		the Company‘s organisational management structure, transactions, various commitments, etc.).
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	The Company has set up both, the supervisory board and the board of directors.
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.	No	The Company is not in full compliance with the recommendations defined in Principles III and IV due to several reasons as set forth below. First of all, the Code of Governance of listed companies came into force in August 2006, therefore, for objective reasons the Company‘s supervisory and management bodies have not made decisions yet as for the timing, procedure and way of implementing the recommendations of the Governance Code. Secondly, considering the specific nature of the Company‘s activities (electricity distribution and supply), they are strictly regulated by laws and supervised by relevant public regulatory authorities (National Control Commission for Prices and Energy and others). This enables to ensure the transparency and effectiveness of the decisions made by the Company‘s bodies, and implement non-discriminatory, cost saving and other principles.
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	The Company‘s supervisory board is elected to consist of 5 persons (Art. 9.2 of the Company's Articles of Association). The Company‘s board of directors is elected to consist of 5 persons (Art. 10.1 of the Company's Articles of Association). The Company believes this number of members of the supervisory board and the board of directors is sufficient (ensures a more effective decision-making process).
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 Company‘s supervisory board is elected for the term of 4 years, and the number of terms is unlimited (Art. 9.1 and 9.2 of the Company‘s Articles of Association). The length of term of members of the supervisory board is a maximum length provided for in the Lithuanian Law on Companies. According to the Company‘s practice, during the election of a new supervisory board in 2005, several members were re-elected. Pursuant to Art. 9.8 of the Company‘s Articles of Association, general meeting of shareholders has a right to recall both the whole supervisory board and individual members prior to expiry of their 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	Pursuant to Art. 9.2 of the Company's Articles of Association, the position of the member of the supervisory board cannot be taken by the member of the board of directors, chief executive officer or any other individual who is not allowed to take this position under the laws. The Company is in compliance with these provisions (the chairman and members of the supervisory board have not been the members of the board of directors or chief executive officer in the past).
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	Pursuant to Art. 9.2 of the Company's Articles of Association, each candidate to the supervisory board has to notify the shareholders of the place and nature of the position to be taken, and the extent to which his other activities are related to the Company, its parent company or subsidiaries.
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.	No	Currently, the Company is not in compliance with this recommendation, however, the Company anticipates to initiate the implementation of this recommendation in future by making relevant amendments to work regulations of the supervisory board that would define the procedure for notification of the supervisory board of changes in information on its members.

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	Currently, the Company is not in compliance with this recommendation, however, the Company anticipates initiating its implementation in future.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	The Company‘s principal activities are electricity distribution and supply. The majority of the members of the supervisory board are experts in the energy field or from other scientific institutions. There has been no need so far for the Company to set up an audit committee.
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	There has been no need or practice so far at the Company to offer a tailored program to all new members of the supervisory board for introducing a member with his/her duties, corporate organisation and activities.
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	Since over 70 per cent of the Company‘s shares are owned by the state represented by the Lithuanian Ministry of Economy, the majority of the members of the supervisory board are elected by the general meeting of shareholders one way or another to meet the interests of the controlling shareholder.

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, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;	No	The Company does not apply these key criteria for identifying whether the members of the supervisory board can be considered to be independent. The Company has not defined specific criteria for the assessment of independence since there has been no need for that so far. However, in view of the criteria listed herein, it might be concluded that the members of the supervisory board actually meet all the criteria for the assessment of independence, except for those set forth in item 4.

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	The Company does not apply the key criteria for the assessment of independence of the members of the supervisory board as set forth in this recommendation, therefore, no conclusions have been disclosed so far in relation to the assessment of independence of the members of the supervisory board.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	See commentary in item 3.9.
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 Company's members of the supervisory board are not remunerated from the Company's funds, therefore, this provision is not applicable to the Company.

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.	No	The supervisory board elected at the Company provides the general meeting of shareholders with comments and recommendations in relation to the Company's annual financial statements, proposed profit appropriation, the Company's annual report, performance of the Company's board of directors and chief executive officer, and fulfils other functions of supervision of the Company's operation and its management bodies pertaining to the competence of the supervisory board. Based on the Company's Articles of Association, the supervisory board does not take any additional functions in relation to consistency and transparency of financial reporting and control system.
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	Based on information available to the Company, all members of the supervisory board act in good faith and for the benefit and in the interests of the Company.
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.	No	To the best knowledge of the Company, the members of a collegial body properly fulfil the duties pertaining to the member of a collegial body. There has been no practice so far at the Company to notify the shareholders of the attendance history of the member of a collegial body at the meetings during the previous financial year.

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.	No	The Company is in compliance with the requirements prescribed by laws and other regulatory legislation in respect of communication between the supervisory board and the shareholders. The supervisory board‘s work regulations and other regulatory legislation, however, do not define the procedures for communication between the supervisory board and the shareholders. According to the past practice, no additional notifications (other than those prescribed by laws) are made to the shareholders.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	No	The Company‘s Articles of Association and work regulations of the supervisory board do not require approval of such kind of transactions by the supervisory board. Such transactions are approved by the Company‘s board of directors.
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	The Company‘s supervisory board in passing decisions that are significant for the Company‘s operations and strategy, is not independent for reasons specified in item 3.6. The Company, however, ensures sufficient resources to the supervisory board (renders technical service for the meetings of the supervisory board, provides all necessary information). Pursuant to Art. 3.1 of the work regulations of the supervisory board, the supervisory board is entitled to nominate an expert (or group of experts) to assess the Company‘s book-keeping and financial reporting.

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	Pursuant to the Company's Articles of Association, the issues related to nomination of chief executive officer and his/her deputies, and determination of their remuneration are solved by the board of directors rather than the supervisory board. There has been no need or practice so far at the Company to set up nomination, remuneration and audit committees.
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 has been no need or practice so far at the Company to set up nomination, remuneration and audit committees.

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.	No	See commentary under item 4.8.
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	See commentary under item 4.8.
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	See commentary under item 4.8.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) 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; 2) 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; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) 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	See commentary under item 4.8.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) 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; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their	No	See commentary under item 4.8.

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; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) 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); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) 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: 1) 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); 2) 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	No	See commentary in item 4.8.

identified, managed and reflected in the information provided; 3) 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; 4) 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; 5) 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 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; 6) 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 has been no need or practice so far at the Company for a collegial body to conduct assessment of its activities and disclose such information, since it is not required under the laws.

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	Work regulations of the supervisory board and the board of directors reveal that the Company is in compliance with 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	Based on work regulations, the meetings of the supervisory board should be convened at least once in a quarter, whereas ordinary meetings of the board of directors should be convened according to the schedule approved by the board of directors.
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	Based on work regulations of the supervisory board, the members and other invited individuals are notified about the meeting being convened 5 days in advance, and they are provided with all material related to the agenda of the meeting. Based on work regulations of the board of directors, the members and other invited individuals are notified about the meeting being convened 3 working days in advance, and they are provided with all material related to the agenda of the meeting.

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.	No	Based on the past practice at the Company, chairpersons of the Company's collegial bodies of supervision and management do not co-ordinate dates and agendas of the meetings.
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 Company's authorised share capital consists of ordinary registered shares with par value of LTL 1 each that grant the same property and non-property rights to their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company's Articles of Association describe the rights attached to the shares.
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	The Company's Articles of Association do not define criteria for significant corporate issues, based on which the Company would determine transactions that require approval of the general meeting of shareholders.
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	The venue, date, and time of the Company's general meeting of shareholders are determined to ensure wide attendance of the shareholders. There has been no such cases in the Company's past practice when the shareholder lodged questions to the Company's supervisory and management bodies on issues on the agenda of the general meeting of shareholders prior to the general meeting of shareholders.

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.	No	The Company confirms its partial compliance with this recommendation. Pursuant to the provisions of the Law on Companies, the Company places draft resolutions of the general meetings of shareholders on the public accessible website of the Company 10 days in advance, whereas other documents are not made public. Based on its current practice, only the draft resolutions of the general meetings of shareholders are translated into foreign language (English), whereas other documents are not published in foreign language (English). Furthermore, there has been no practice so far at the Company to place the minutes of the general meeting of shareholders on the publicly accessible website of the Company.
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 Company's shareholders are able to exercise their right to participate at the general meeting of shareholders in person and by proxy, provided such proxy has been duly authorised or agreement on assignment of voting rights has been signed in accordance with the procedure prescribed by laws. The Company provides its shareholders with opportunity to vote by completing the general voting ballot as prescribed by the Law on 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.	No	Based on current practice at the Company, there has been no need so far to use modern technologies in voting process during the general meetings of shareholders. The implementation of such measures would likely require inadequate costs as compared to likely benefit.
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	Yes	The Company is in compliance with these recommendations.

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.		
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	The Company is in compliance with these recommendations.
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	The Company is in compliance with these recommendations.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The member of the Company's board of directors is required to abstain from voting when decisions concerning his/her activities or responsibilities at the board are voted on (Art. 7.5 of work regulations of the board of directors). Moreover, the laws prescribe that the members of a company's bodies should avoid such situations where their personal interests are or can be in conflict with the interests of the company.
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	Based on past practice at the Company, no statement of remuneration policy is prepared by the Company, neither it is disclosed to the general meeting of shareholders, nor posted on the Company's website. It is not required by laws.

8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See commentary in item 8.1.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors; however, the remuneration statement should not contain information which is not subject to disclosure due to commercial reasons.	No	See commentary in item 8.1.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See commentary in item 8.1.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	See commentary in item 8.1.

8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	See commentary in item 8.1.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments related information should be disclosed: 1) 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; 2) The remuneration and benefits received from any undertaking belonging to the same group; 3) 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; 4) 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; 5) 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; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points 1 to 5. 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: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) 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; 3) 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;	No	Based on the current practice, in its annual prospectus-report the Company discloses total and average amounts of remuneration, bonuses and other benefits paid over the accounting period as per the member of the supervisory board, the board of directors, and administration. Information is disclosed as a breakdown by each category of these individuals, i.e. individually for the supervisory board, the board of directors, and administration. In addition, the Company discloses information on loans, guarantees and sureties issued on behalf of these individuals, as well as the Company's shares held by these individuals.

4) 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: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	No schemes anticipating remuneration of directors in shares, share options or any other rights to acquire shares or be remunerated on the basis of share price movements have been applied so far by the Company.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) 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 item to individual directors.		See commentary under item 8.8.
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		See commentary under item 8.8.

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 items 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.		See commentary under item 8.8.
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in item 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 item must be posted on the company's website.		See commentary under item 8.8.
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 cooperation 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's corporate governance system assures that the rights of stakeholders that are protected by law are respected. For instance, consultation, negotiations and discussions with the representatives of the Company's employees on issues related to business optimization processes at the Company.
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.		Based on the collective contract signed with the representatives of the Company's employees, the Company should notify immediately the representatives of the trade unions of changes anticipated in the Company, its financial position and other matters.
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: 1) The financial and operating results of the company 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable key risk factors; 6) Transactions between the company and connected persons as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders 8) 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.	Yes	The Company discloses information required in this recommendation in a number of ways: 1. Discloses significant events (e.g. changes in the Company's governance structure, newly elected members to the supervisory and management bodies, the Company's financial performance, etc.), 2. Places information on the publicly accessible website of the Company (e.g. the Company's objectives), 3. Discloses information in the annual prospectus-report (e.g. the members of the Company's supervisory and management bodies, chief executive officer and their remuneration, potential expected key risk factors, etc.). The Company discloses consolidated results of whole group (i.e. the results of Rytų Skirstomieji Tinklai AB and its subsidiaries).
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.	Yes	The Company is in compliance with this recommendation to disclose consolidated results of the whole group, to which the Company belongs.
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	Yes	Information required in this recommendation is disclosed in the Company's annual prospectus-report (professional background of chief executive officer, participation of the members of the Company's supervisory and management bodies in the activities of other companies, and their remuneration).

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.	No	There has been no practice so far at the Company to disclose additional information on relations between the Company and its stakeholders.
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 discloses information in Lithuanian and English languages through information disclosure system used by the Vilnius Stock Exchange to all simultaneously. The Company announces information before or after a trading session on the Vilnius Stock Exchange to all the markets where the Company‘s securities are traded simultaneously. The Company does not disclose information that may affect the price of shares issued by it in any comments, interviews or otherwise for as long as such information is made public through the information system used by the stock exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Besides the way of disclosure of information described in item 10.5, the Company employs various mass media means (press, news agencies, and publicly accessible website of the Company) to ensure a wide dissemination of information to the persons concerned. Information on the Company‘s website is presented in both, Lithuanian and English languages.
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 information required in this recommendation is placed on the Company‘s website.

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.	No	Based on the current practice, an audit of the Company's annual financial statements and annual report is conducted by an independent auditor. Interim financial statements are not audited at the Company.
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 terms of reference of the tender for selection of the firm of auditors are established by the Company's board of directors, based on which a tender is conducted in accordance with the requirements prescribed by laws regulating public procurements. Following the selection of the firm of auditors and approval of the candidacy from the Securities Commission, a candidate firm of auditors is proposed by the Company's board of directors to the general meeting of shareholders.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applic able	The firm of auditors has not provided any non-audit services to the Company and has not received any fees thereon from the Company. This requirement is included in the terms of reference of a tender for selecting a firm of auditors, as well as in the agreement on provision of audit services.