RYTŲ SKIRSTOMIEJI TINKLAI

To the Securities Commission of the Republic of Lithuania
Konstitucijos pr. 23
LT-08105 Vilnius

2008-04-07 Nr. 10430-339

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 21 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Securities Commission of the Republic of Lithuania, we, Rimantas Milišauskas, Chief Executive Officer of Rytų Skirstomieji Tinklai AB, and Arvydas Zakalskis, Chief Financial Officer of Rytų Skirstomieji Tinklai AB, hereby confirm that, to the best of our knowledge, the consolidated annual financial statements of Rytų Skirstomieji Tinklai AB for 2007, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position, profit or loss of the Company and the Group of undertakings, that the consolidated annual report provides a true overview of business development and activities, the condition of the Company and the Group of undertakings along with a description of the main risks and uncertainties encountered.

Chief Executive Officer Rimantas Milišauskas

Chief Financial Officer Arvydas Zakalskis

Artur Grigorian, tel. 251 26 38

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RYTŲ SKIRSTOMIEJI TINKLAI AB

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

FOR THE YEAR ENDED 31 DECEMBER 2007

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PRICEWATERHOUSECOOPERS

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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 - 45 which comprise the balance sheet as of 31 December 2007 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 of the Comapany as at 31 December 2007. Previous revaluation was done 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.

Furthermore, the last revaluation was only based on the fair values of the property, plant and equipment of the Company as at 31 December 2007. The total carrying value of the property, plant and equipment of subsidiaries amounting to LTL 41,400,000 as at 31 December 2007 has not been revalued as of that date. 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 of subsidiaries in the consolidated the Group financial statements as at 31 December 2007.

Qualified Opinion
In our opinion, except for the possible effect 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 2007, 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 2007 set out on pages 46 - 81 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 2007.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner
Vilnius, Republic of Lithuania
7 April 2008

Ona Armalienė
Auditor's Certificate No.000008

(All tabular amounts are in the litas (LTL), unless otherwise stated)

BALANCE SHEET

	Note	GROUP		COMPANY	
		As at 31 December			
ASSETS		**2007**	**2006**	**2007**	**2006**
Non-current assets					
Property, plant and equipment	6	3,528,584,468	2,399,646,066	3,488,251,486	2,359,386,009
Intangible assets	7	10,700,654	2,879,289	10,694,856	2,879,289
Investments in subsidiaries	8	-	-	36,643,000	36,643,000
Deferred income tax assets	19	62,623	490,888	-	-
Non-current receivables and prepayments	9	6,736,239	7,582,918	6,736,239	7,582,918
		3,546,083,984	**2,410,599,161**	**3,542,325,581**	**2,406,491,216**
Current assets					
Inventories	10	8,690,922	5,827,799	3,320,024	2,299,979
Trade and other receivables	11	100,676,636	89,963,171	103,718,811	92,930,718
Derivative financial instruments	12	415,241	255,321	415,241	255,321
Prepaid current income tax		2,583,332	211,472	2,442,192	80,557
Cash and cash equivalents	13	4,126,860	1,561,800	3,887,416	1,048,736
		116,492,991	97,819,563	113,783,684	96,615,311
Non-current assets classified as held for sale		461,964	475,885	461,964	475,885
		116,954,955	**98,295,448**	**114,245,648**	**97,091,196**
Total assets		**3,663,038,939**	**2,508,894,609**	**3,656,571,229**	**2,503,582,412**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	14	492,404,653	492,404,653	492,404,653	492,404,653
Revaluation reserve	15	1,913,340,243	1,166,123,149	1,906,786,862	1,158,657,074
Legal reserve	15	49,409,220	49,356,490	49,240,465	49,240,465
Other reserves	15	160,207,278	61,850,362	158,521,273	60,574,527
Retained earnings		170,091,977	123,119,404	174,997,519	129,948,304
Total equity		**2,785,453,371**	**1,892,854,058**	**2,781,950,772**	**1,890,825,023**
LIABILITIES					
Non-current liabilities					
Borrowings	18	95,835,917	80,362,769	95,835,917	80,362,769
Deferred income tax liabilities	19	372,269,097	225,357,437	372,428,853	225,475,818
Other non-current liabilities	16	118,561,145	70,493,807	118,561,145	70,493,807
		586,666,159	**376,214,013**	**586,825,915**	**376,332,394**
Current liabilities					
Trade and other payables	17	237,481,584	168,793,154	237,445,943	169,042,512
Current income tax liabilities		208,225	9,193,347	-	8,890,452
Borrowings	18	53,229,600	61,840,037	50,348,599	58,492,031
		290,919,409	**239,826,538**	**287,794,542**	**236,424,995**
Total liabilities		**877,585,568**	**616,040,551**	**874,620,457**	**612,757,389**
Total equity and liabilities		**3,663,038,939**	**2,508,894,609**	**3,656,571,229**	**2,503,582,412**

The financial statements on pages 5 to 45 have been approved by the General Director and the Finance Director on 7 April 2008.

Rimantas Milišauskas
General Director

Arvydas Zakalskis
Finance Director

The notes on pages 10 to 45 form an integral part of these financial statements.

(All tabular amounts are in the litas (LTL), unless otherwise stated)

INCOME STATEMENT

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2007	2006	2007	2006
Revenue	5	1,068,036,743	933,779,159	1,070,637,477	933,457,971
Other income	22	869,157	1,234,298	1,577,505	2,286,529
Electricity purchased		(456,235,679)	(375,670,479)	(456,235,679)	(375,670,479)
Electricity transmission service expense		(159,410,526)	(150,617,312)	(159,410,526)	(150,617,312)
Depreciation and amortisation		(181,980,507)	(174,500,306)	(175,534,683)	(167,809,404)
Employee benefits and related social insurance contributions		(127,381,480)	(110,527,432)	(96,580,643)	(84,071,109)
Repair and maintenance expense		(56,127,524)	(48,820,032)	(79,122,411)	(70,973,382)
Transportation expense		(1,166,040)	(710,340)	(14,052,177)	(12,579,399)
Reversal of negative result of revaluation of property, plant and equipment	6	49,417,757	-	49,417,757	-
Other gains (losses), net	23	513,219	269,878	415,038	212,085
Other expenses	24	(42,728,136)	(44,008,137)	(49,797,992)	(44,645,949)
Operating profit		93,806,984	30,429,297	91,313,666	29,589,551
Finance income	20	259,245	738,903	256,373	738,285
Finance costs	21	(5,829,947)	(4,123,609)	(5,661,164)	(3,990,029)
Finance costs - net		(5,570,702)	(3,384,706)	(5,404,791)	(3,251,744)
Profit before income tax		88,236,282	27,044,591	85,908,875,	26,337,807
Income tax	25	(13,930,826)	(4,689,854)	(13,076,983)	(4,262,158)
Profit for the year		74,305,456	22,354,737	72,831,892	22,075,649
Attributable to:					
Equity holders of the Company		74,305,456	22,354,737	72,831,892	22,075,649
Earnings per share for profit attributable to the equity holders of the Company (expressed in LTL per share)					
– basic / diluted	26	0.15	0.045	0.15	0.045

The notes on pages 10 to 45 form an integral part of these financial statements.

(All tabular amounts are in the litas (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 2006		**492,404,653**	**1,274,286,873**	**-**	**-**	**138,276,121**	**1,904,967,647**
Depreciation transfer, net of tax		-	(108,163,724)	-	-	108,163,724	-
Profit for the year		-	-	-	-	22,354,737	22,354,737
Total recognised income and expense for 2006		-	(108,163,724)	-	-	130,518,461	22,354,737
Transfer to reserves	15	-	-	49,356,490	61,850,362	(111,206,852)	-
Dividend relating to 2005	27	-	-	-	-	(34,468,326)	(34,468,326)
Balance at 31 December 2006		**492,404,653**	**1,166,123,149**	**49,356,490**	**61,850,362**	**123,119,404**	**1,892,854,058**
Balance at 1 January 2007		**492,404,653,**	**1,166,123,149,**	**49,356,490,**	**61,850,362,**	**123,119,404,**	**1,892,854,058**
Depreciation transfer, net of tax		-	(105,545,089)	-	-	105,545,089	-
Revaluation of property, plant and equipment	6, 15	-	1,003,249,627	-	-	-	1,003,249,627
Calculated deferred income tax liabilities as a result of revaluation of property, plant and equipment	19	-	(150,487,444)	-	-	-	(150,487,444)
Profit for the year		-	-	-	-	74,305,456	74,305,456,
Total recognised income and expense for 2007		-	747,217,094	-	-	179,850,545	927,067,639
Transfer to reserves	15	-	-	52,730	98,356,916	(98,409,646)	-
Dividend relating to 2006	27	-	-	-	-	(34,468,326)	(34,468,326)
Balance at 31 December 2007		**492,404,653**	**1,913,340,243**	**49,409,220**	**160,207,278**	**170,091,977**	**2,785,453,371**

The notes on pages 10 to 45 form an integral part of these financial statements.

(All tabular amounts are in the litas (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 2006		**492,404,653**	**1,265,932,393**	-	-	**144,880,654**	**1,903,217,70**
Depreciation transfer, net of tax		-	(107,275,319)	-	-	107,275,319	
Profit for the year		-	-	-	-	22,075,649	22,075,64
Total recognised income and expense for 2006		-	(107,275,319)	-	-	129,350,968	22,075,64
Transfer to reserves	15	-	-	49,240,465	60,574,527	(109,814,992)	
Dividend relating to 2005	27	-	-	-	-	(34,468,326)	(34,468,326
Balance at 31 December 2006		**492,404,653**	**1,158,657,074**	**49,240,465**	**60,574,527**	**129,948,304**	**1,890,825,02**
Balance at 1 January 2007		**492,404,653**	**1,158,657,074**	**49,240,465**	**60,574,527**	**129,948,304**	**1,890,825,02**
Depreciation transfer, net of tax		-	(104,632,395)	-	-	104,632,395	
Revaluation of property, plant and equipment	6, 15	-	1,003,249,627	-	-	-	1,003,249,62
Calculated deferred income tax liabilities as a result of revaluation of property, plant and equipment	19	-	(150,487,444)	-	-	-	(150,487,444
Profit for the year		-	-	-	-	72,831,892	72,831,89
Total recognised income and expense for 2007		-	748,129,788	-	-	177,464,287	925,594,07
Transfer to reserves	15	-	-	-	97,946,746	(97,946,746)	
Dividend relating to 2006	27	-	-	-	-	(34,468,326)	(34,468,326
Balance at 31 December 2007		**492,404,653**	**1,906,786,862**	**49,240,465**	**158,521,273**	**174,997,519**	**2,781,950,77**

The notes on pages 10 to 45 form an integral part of these financial statements.

CASH FLOW STATEMENT

		Year ended 31 December			
		GROUP		COMPANY	
	Note	2007	2006	2007	2006
Cash flows from operating activities					
Profit for the year		74,305,456	22,354,737	72,831,892	22,075,649
Adjustments for:					
– Income tax	25	13,930,826	4,689,854	13,076,983	4,262,158
– Depreciation and amortisation		182,756,412	174,625,716	175,715,576	167,934,814
– (Profit)/loss from disposal of property plant and equipment (PPE)		(353,299)	(14,557)	(255,118)	43,236
– Retirement of intangible assets (IA) and PPE	6, 7	8,417,853	10,381,743	8,403,639	10,245,050
– Reversal of negative result of PPE revaluation	6	(49,417,757)	-	(49,417,757)	-
– Reversal of impairment charge of PPE	6	(419,257)	(259,790)	(419,257)	(259,790)
– Impairment charge of PPE	6	339,140	229,441	339,141	229,441
–(Reversal of)/impairment charge on accounts receivable	24	1,115,765	1,423,721	1,110,057	1,445,932
– (Reversal of)/impairment charge on inventory		(272,584)	(553,728)	(357,145)	(833,194)
– Interest income	20, 22	(415,413)	(902,420)	(710,029)	(1,073,662)
– Interest expense	21	5,829,117	4,122,875	5,660,334	3,989,300
– Dividend income	22	-	-	(421,836)	(927,907)
Changes in working capital:					
– Inventories		(2,859,877)	1,791,770	(932,237)	2,282,512
– Trade and other receivables		(12,405,269)	(5,169,838)	(13,321,312)	(5,335,319)
– Trade and other payables		96,881,146	50,003,205	96,727,716	53,395,379
Cash generated from operations		317,432,259	262,722,729	308,030,647	257,473,599
Interest paid		(5,475,670)	(3,944,286)	(5,306,886)	(3,810,711)
Income tax paid		(28,040,806)	(35,489,119)	(27,658,479)	(34,263,154)
Net cash generated from operating activities		283,915,783	223,289,324	275,065,282	219,399,734
Cash flows from investing activities					
Purchases of PPE and IA		(259,428,050)	(209,577,253)	(251,996,902)	(200,960,261)
Proceeds from sale of PPE and IA		1,266,071	1,173,369	775,587	1,101,083
Support received from the EU Structural Funds		3,301,878	-	3,301,878	-
Loans granted to subsidiaries		-	-	-	(2,000,000)
Loan repayments received from subsidiaries		-	-	1,000,000	-
Loan repayments received		559,622	715,353	559,622	715,353
Interest received		415,413	902,420	710,029	1,073,662
Dividends received	22	-	-	421,836	927,907
Net cash used in investing activities		(253,885,066)	(206,786,111)	(245,227,950)	(199,142,256)
Cash flows from financing activities					
Proceeds from borrowings		44,886,400	14,847,040	44,886,400	14,847,040
Repayments of borrowings		(29,413,252)	(12,142,347)	(29,413,252)	(12,142,347)
Dividends paid to the Company's shareholders	27	(34,328,368)	(34,186,211)	(34,328,368)	(34,186,211)
Net cash used in financing activities		(18,855,220)	(31,481,518)	(18,855,220)	(31,481,518)
Increase/(decrease) in cash and cash equivalents (including overdraft)		11,175,497	(14,978,305)	10,982,112	(11,224,040)
Cash and cash equivalents (including overdraft) at beginning of year	13	(41,223,385)	(26,245,080)	(38,388,443)	(27,164,403)
Cash and cash equivalents (including overdraft) at end of year	13	(30,047,888)	(41,223,385)	(27,406,331)	(38,388,443)

The notes on pages 10 to 45 form an integral part of these financial statements

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. As of May 2 2007, the Company's shares are listed on the Vilnius Stock Exchange (VSE). The address of the Company's registered office is:

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

As at 31 December 2007 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 (2006: 71.35 per cent) and E.ON Ruhrgas International AG (Germany) with 20.28 per cent (2006: E.ON Energie AG – 20.28 per cent) of the Company's shares. The remaining shares are widely held.

The main activity of the Company is electricity supply and 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 sole provider of electricity distribution service 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 Energia 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 Energia AB continues its activities as the transmission network operator and 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.

The National Control Commission for Prices and Energy regulates the Company's activities by setting price-caps for licensed services. In 2007, the effective public tariff caps for electricity were as follows:

- customers receiving electricity from 110 kV and higher voltage electricity network – 13.78 ct/kWh (2006: 12.39 ct/kWh);
- customers receiving electricity from lower than 110 kV but not lower than 6kV voltage electricity network – 20.08 ct/kWh (2006: 18.75 ct/kWh);
- customers receiving electricity from 0.4 kV voltage electricity network – 30.14 ct/kWh (2006: 28.93 ct/kWh).

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 31 December 2007.	Group's share (%) as at 31 December 2006	Profile
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 2007 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 annual periods presented, unless otherwise stated.

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 2007 the Group and the Company reclassified certain comparative amounts. For explanations on reclassifications see Note 32.

2.1 Basis of preparation (continued)

Adjustments made retrospectively

In the preparation of the financial statements for the year ended 31 December 2007 the Group and the Company retrospectively calculated additional long-term employee benefits for 2006. Due to this calculation other non-current liabilities of the Group and the Company increased by LTL 2,894,224, deferred tax asset increased by LTL 442,157. As a result of these adjustments retained earnings decreased by LTL 2,466,768.

Adjustments made prospectively

In 2007, the Company applied to the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania regarding the recognition of revenue received for connection of electricity equipment of new customers to the electricity grid for tax purposes. The State Tax Inspectorate allowed the Company recognising revenue for tax purposes received for connection of new customer since 2005 based using the same method as for the accounting purposes, i.e. over the average customer relationship period which is the same as the average useful life of electricity equipment constructed as a result of new customer connection. Based on a permission of the State Tax Inspectorate, the Company recalculated income and social taxes payable in 2005 and 2006 and made adjustments prospectively in 2007. Consequently, the amount of income tax expense decreased in the income statement: income tax decreased by LTL 5,449,834 and social tax – LTL 998,971. This also had impact on the decrease of deferred tax assets.

Change in accounting policy and estimates

The Group and the Company have increased the customer relationship period, over which deferred revenue for connection of customers to its electricity network is recognized in the income statement, from 12 year to 31 years. According to the management assessment, the customer relationship period of 31 years is more accurate (which is the average useful life of electricity equipment constructed as a result of the customer connection). If the Company and the Group would continue using 12 years deferral period, revenues for 2007 would be higher and deferred revenues balance would be lower by LTL 4,837,000.

The Group and the Company have changed their accounting policy for recognition of revenue on customer connection services when payments are based on the tariffs approved by the National Control Commission for Prices and Energy. Before 2007, the Group and the Company accounted for such services in the accounting period in which the connection services were rendered. From 2007, the Group and the Company defer customer connection revenue over the customer connection period of 31 years, if the amount of related connection costs is above LTL 2,000. If the Company and the Group would continue applying the old policy, revenues for 2007 would be higher and deferred revenues balance would be lower by LTL 3,134,000.

2.1 Basis of preparation (continued)

Standards, amendments to standards and interpretations effective in 2007:

IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after January 2007), and the complementary Amendments to IAS 1, Presentation of Financial Statements–Capital disclosure were adopted by the Group and the Company in 2007. The IFRS 7 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

Standards, amendments to standards and interpretations effective in 2007 but not relevant to the Groups and the Company's operations:

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Groups and the Company's operations:

- IFRS 4 Insurance Contracts.
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies.
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

Standards, amendments to standards and interpretations that are not effective for 2007 and have not been early adopted:

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's and Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Company and the Group has not early adopted:

IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The Company will apply this Standard with effect from 1 January 2009, however, it is not expected to have material effect on the Group's and the Company's financial statements.
IAS 23, Borrowing Costs, Amendment (effective for annual periods beginning on 1 January 2009). The Group and the Company will apply this Standard with effect from 1 January 2009; however, meanwhile this Standard is not relevant to the Company's operations since no borrowings are used to finance the construction of qualifying assets.
IAS 27, Consolidated and Separate Financial Statements (reviewed in January 2008 and effective for annual periods beginning on or after 1 July 2009). Management plans to apply the new standard when it is effective
IFRS 3, Business Combinations (reviewed in January 2008 and applicable to business combinations, in which the acquisition date falls within the first annual period beginning on or after 1 July 2009). Management plans to apply the new standard when it is effective.
Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based (issued in January 2008, effective for annual periods beginning on or after 1 January 2008). Management believe this Standard is not relevant to the Company's operations.
IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). Management plans to apply the new standard when it is effective.
IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). Management do not expect this interpretation to be relevant to the Group's and the Company's operations.
IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). Management do not expect this interpretation to be relevant to the Group's and the Company's operations.

2.1 Basis of preparation (continued)

IFRIC 13, Customer Loyalty Programmes (effective for annual period beginning on or after 1 July 2008). This interpretation is not relevant to the Group's and Company's operations.
IFRIC 14, IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirement and their Interaction (effective for annual periods beginning on or after 1 January 2008). Management believes that this amendment is not relevant for the Group's and Company's operations.
IAS 32 and IAS 1 Amendment, Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009). Management does not expect the amendment to affect its stand alone and consolidated financial statements

IFRIC 12, 13, 14 and amended IAS 1, IAS 23, IAS 27, IAS 32 as well as amended IFRS 2 and revised IFRS 3 have not been yet endorsed by the EU.

2.2 Consolidated financial statements

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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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.

With effect from 2 February 2002, the litas has been pegged with the euro at an exchange rate of LTL 3.4528 to EUR 1.

2.4 Foreign currency translation (continued)

(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 acquisition cost of the asset, and the amount received is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in shareholders' equity. However, the increase is recognized in profit and loss to the extend that it reverses a revaluation decrease of the same asset previously recognized in profit and loss (taking into consideration depreciation). 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 value increases 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 balance is transferred from revaluation reserve to retained earnings when the asset is retired or disposed

– buildings	5-50 years
– structures and electricity network	5-50 years
– machinery and equipment	3-40 years
– other property, plant and equipment	3-50 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 derecognized.

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).

2.7 Impairment of non-financial assets

Assets that are subject to amortisation and depreciation 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 and loans and receivables. 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. Derivatives are also categorised as held for trading unless they are designated as hedges.

(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).

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 through 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 loss.

2.11 Inventories

Inventories are stated at the lower of cost or 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 the amount of impairment loss. Impairment of trade receivables is recognised 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 impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of the impairment amount, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the impairment amount for trade receivables. Subsequent recoveries of amounts previously written off are recognised in the income statement as revenue.

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 Authorised share capital

Ordinary shares are recognised under equity.

2.16 Trade payables

Trade 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.

2.17 Borrowings (continued)

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) 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, and is based on the Company's historical experience and average payment period by the customers.

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 the legal acts of the Republic of Lithuania new customers reimburse the Group or the Company with 40 per cent 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 31 years (2006 – 12 years), which is the average useful life of electricity equipment constructed by the Group or the Company as a result of new customer connection. The Company's estimations applicable to the recognition of revenue received for customer connection were changed in 2007 by establishing a previously mentioned period of 31 years (a period of 12 years was applicable in prior periods).

When the customer pays the fee for the connection services, the Group and the Company recognise revenue in the accounting period in which the connection services are rendered, if associated costs are less when LTL 2,000.

(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.

2.21 Revenue recognition (continued)

(f) Dividend 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 in the balance sheet 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

When performing their activities, the Group and the Company are exposed to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity 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.

(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.

3.1 Financial risk factors (continued)

(ii) Price risk

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

(iii) 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 2007, all the Group's and the Company'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 if market interest rates are rising.Under the interest rate swaps, the Group and the Company agree with other parties to exchange, at specified intervals, the difference between fixed contract interest rates and floating-rate interest amounts calculated by reference to the agreed notional amounts (12 Note).

If the interest rate of loans, which are not covered by the interest rate swap would increase by 1%, when the Company and the Group would incur additional interest expenses of LTL 826,000 for 2007(2006 – LTL 483, 000).

(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 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.

Additional information on the credit quality of financial assets is provided in Note 3.4.

(c) Liquidity risk

The Company manages liquidity risk by planning its cash flows and keeping the optimal level of outstanding credit facilities available. 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.

As at 31 December 2007 the Group's current liabilities exceeded its current assets by LTL 173,965 thousand and the Company's current liabilities exceeded its current assets by LTL 173,549 thousand. The Group's bank borrowings falling due within 12 month period amounted to LTL 53,230 thousand and the Company's – to LTL 50,349 thousand (Note 18).

The Group's and the Company's current liabilities exceeded its current assets, as the payments terms with suppliers are longer compared to payment terms with customers for electricity supplied. Also, in order to minimize cash balances on hand the Group and the Company uses various short-term credit facilities. The Group's liquidity ratio was 40% as at 31 December 2007 (2006 - 41%).

The management believes that sufficient cash flows will be generated by the Group and the Company and credit facilities will be available in order to continue to meet their current liabilities as they fall due.

The Company's and the Group's information on borrowings is disclosed in note 18.

3.2. Capital risk management

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public company must be not less than LTL 100,000 (private limited liability company must be not less than LTL 10,000) and the shareholders' equity should not be lower than 50 per cent of the company's registered share capital. As at 31 December 2007 and 31 December 2006, the Company and Group complied with these requirements.

The Group and the Company seeks to optimize its capital risk management. The objective is to keep equity and assets ratio at more then 40%. The Company considers it capital is equity.

	GROUP		COMPANY	
	2007	2006	2007	2006
Equity	2,785,453,371	1,892,854,058	2,781,950,772	1,890,825,023
Assets	3,663,038,939	2,508,894,609	3,656,571,229	2,503,582,412
Equity ratio (Equity/assets)	76%	75%	76%	76%

3.3 Financial assets and liabilities by categories

The accounting policies for financial instruments have been applied to the line items below:

GROUP	Loans and receivables	Assets at fair value though profit or loss	Total
31 December 2007			
Derivatives	-	415,241	415,241
Trade receivables, net	96,853,336	-	96,853,336
Mortgage loans	3,540,700	-	3,540,700
Cash and cash equivalents	4,126,860	-	4,126,860
	104,520,896	415,241	104,936,137

	Other financial liabilities	Total
31 December 2007		
Borrowings	149,065,517	149,065,517
Trade payables	163,659,142	163,659,142
Accruals	6,725,635	6,725,635
Other long term liabilities	1,145,083	1,145,083
Other short term liabilities	620,792	620,792
	321,216,169	321,216,169

GROUP	Loans and receivables	Assets at fair value though profit or loss	Total
31 December 2006			
Derivatives	-	255,321	255,321
Trade receivables, net	84,235,999	-	84,235,999
Mortgage loans	3,776,260	-	3,776,260
Cash and cash equivalents	1,561,800	-	1,561,800
	89,574,059	255,321	89,829,380

	Other financial liabilities	Total
31 December 2006		
Borrowings	142,202,806	142,202,806
Trade payables	115,632,329	115,632,329
Accruals	5,227,013	5,227,013
Other long term liabilities	1,118,531	1,118,531
Other short term liabilities	476,660	476,660
	264,657,339	264,657,339

3.3 Financial assets and liabilities by categories (continued)

COMPANY	Loans and receivables	Assets at fair value though profit or loss	Total
31 December 2007			
Derivatives	-	415,241	415,241
Trade receivables, net	95,807,198	-	95,807,198
Mortgage loans	3,540,700	-	3,540,700
Loans to subsidiaries	3,000,000	-	3,000,000
Cash and cash equivalents	3,887,416	-	3,887,416,
	106,235,314	415,241	106,650,555

31 December 2007	Other financial liabilities	Total
Borrowings	146,184,516,	146,184,516,
Trade payables	167,045,148	167,045,148
Accruals	5,101,692	5,101,692
Other long term liabilities	1,145,083	1,145,083
Other short term liabilities	616,634	616,634
	320,093,073	320,093,073

COMPANY	Loans and receivables	Assets at fair value though profit or loss	Total
31 December 2006			
Derivatives	-	255,321,	255,321
Trade receivables, net	74 503 393	-	74,503,393
Mortgage loans	3,776,260	-	3,776,260
Loans to subsidiaries	4,000,000	-	4,000,000
Cash and cash equivalents	1,048,736	-	1,048,736
	83,329,389	255,321	83,583,710

31 December 2006	Other financial liabilities	Total
31 December 2006	138,854,800	138,854,800
Borrowings	119,174,124	119,174,124
Trade payables	4,028,091	4,028,091
Accruals	1,118,531	1,118,531
Other long term liabilities	472,321	472,321
	263,647,867	263,647,867

3.4 Credit quality of financial assets

The Group does not classify accounts receivable and other financial assets exposed to credit risk according to credit quality. Credit risk is controlled by analysing accounts receivable past due. The analysis of accounts receivable past due is constantly monitored by the Group's management.
The table below shows major trade receivables of the Group at the balance sheet date by category of customers:

Trade receivables for electricity consumption	2007	2006
Commercial companies	43,283,706	34,414,302
Industrial companies	22,986,962	21,683,266
Residential customers	20,254,711	20,237,680
Budget institutions and agricultural firms	8,696,331	6,321,676
	95,221,710	82,656,924
Other receivables	3,128,590	3,663,843
	98,350,300	86,320,767

As at 31 December 2007, the Company's customers had no significant accounts receivable past due in respect of which impairment was not established. The payment term of nearly 97 per cent of the Group's accounts receivable for electricity has not expired.
The table below presents the ageing summary of accounts receivable at 31 December:

	2007	2006
Trade receivables neither past due nor impaired	94,217,916	82,357,766
Trade receivables past due but not impaired	3,075,236	2,718,197
Impaired trade receivables, net	1,057,148	1,244,804
	98,350,300	86,320,767

The Company and the Group hold cash balances in accounts of the major Lithuanian banks assigned with higher than A external credit rating by the rating agency Fitch Ratings.

The Group and the Company granted mortgage loans to employees (Note 9). The Company granted a loan to its subsidiary Rytra UAB (Note 18).

3.5. 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.

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 are stated at a revalued amount less accumulated depreciation and impairment. The revalued amount is a fair value established using revaluation results provided by independent valuers Korporacija Matininkai UAB. The last revaluation was performed in 2007 and revaluation results were recorded on 31 December 2007 (note 6).

(b) Deferring of customer connection fees

The Group and the Company defer the revenue received for the new customer connections and recognise them as income over the period of 31 years (2006: 12 years), which is the average useful life of electricity equipment constructed by the Group or the Company as a result of the new 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 became eligible. As of 1 July 2004, none of the Company's customers have chosen a different supplier; moreover, 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.

(c) Impairment loss of accounts receivable

Impairment loss of 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 accounts receivable. The carrying amounts of accounts receivable are disclosed in Notes 9 and 11.

(d) Useful life of electricity grid equipment

Management determines estimated useful lives and the related deprecation for its electricity grid equipment. This estimation is based on technological changes, physical depreciation and expected use of the asset. It can change substantially due to technical innovations. In other case, if no significant technological changes are introduced, equipment can be used for a longer period than the one currently determined.

(All tabular amounts are in the litas (LTL), unless otherwise stated)

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 2007 are as follows:

GROUP	**Electricity distribution**	**Electricity supply**	**Other**	**Unallocated**	**Group**
Total gross segment sales	631,457,355	421,488,391	129,666,454	-	1,182,612,200
Inter-segment sales	(477,390)	(198,965)	(113,899,102)	-	(114,575,457)
Revenue	630,979,965	421,289,426	15,767,352	-	1,068,036,743
Operating profit / segment result	92,543,693	(1,022,856)	2,498,917	(212,770)	93,806,984
Finance income (Note 20)					259,245
Finance costs (Note 21)					(5,829,947)
Profit before income tax					88,236,282
Income tax expense (Note 25)					(13,930,826)
Profit for the year					74,305,456

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

GROUP	**Electricity distribution**	**Electricity supply**	**Other**	**Unallocated**	**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	25,767,859	(177,380)	3,878,587	960,231	30,429,297
Finance income (Note 20)					738,903
Finance costs (Note 21)					(4,123,609)
Profit before income tax					27,044,591
Income tax expense (Note 25)					(4,689,854)
Profit for the year					22,354,735

GROUP	**Year ended 31 December 2007**			
	Electricity distribution	**Electricity supply**	**Other**	**Group**
Depreciation and amortisation	(181,776,063)	(56,132)	(148,312)	(181,980,507)

(All tabular amounts are in the litas (LTL), unless otherwise stated)

5. Segment information (continued)

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)

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).

The segment assets and liabilities as at 31 December 2007 and capital expenditure for the year then ended are as follows:

GROUP

	Electricity distribution	**Electricity supply**	**Other**	**Unallocated**	**Group**
Assets	3,560,202,685	43,943,466	49,095,353	9,797,435	3,663,038,939
Liabilities	235,119,129	112,093,456	8,830,144	521,542,839	877,585,568
Capital expenditure (Notes 6, 7)	268,261,723	-	7,743,002	-	276,004,725

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	8,927,731	2,508,894,609
Liabilities	155,342,984	77,227,521	6,716,456	376,753,590	616,040,551
Capital expenditure (Notes 6, 7)	201,732,266	-	8,478,001	-	210,210,267

(b) Secondary reporting format – geographical segments

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

6. Property, plant and equipment

GROUP

	Buildings	Structures and electricity network	Machinery and equipment	Other PPE	Construction in progress	Total
At 1 January 2006						
Cost or revaluation	223,304,585	2 649,685,358	324,357,046	101,815,296	29,816,431	3,328,978,716
Accumulated depreciation and impairment	(70,334,268)	(727,863,889)	(110,763,716)	(42,833,815)	(1,020,295)	(952,815,983)
Net book amount	152,970,317	1,921,821,469	213,593,330	58,981,481	28,796,136	2,376,162,733
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	15,056,659	188,295,691	208,473,365
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	67,342,901	55,454,617	2,399,646,066
31 December 2006						
Cost or revaluation	226,678,641	2,768,969,766	338,973,652	122,441,571	56,215,122	3,513,278,752
Accumulated depreciation and impairment	(75,495,071)	(857,746,482)	(124,531,958)	(55,098,670)	(760,505)	(1,113,632,686)
Net book amount	151,183,570	1,911,223,284	214,441,694	67,342,901	55,454,617	2,399,646,066
Year ended 31 December 2007						
Opening net book amount	151,183,570	1,911,223,284	214,441,694	67,342,901	55,454,617	2,399,646,066
Additions	677,511	1,642,446	2,851,990	13,194,273	247,535,203	265,901,423
Disposals	(299,978)	(13,513)	(5,352)	(499,354)	-	(818,197)
Retirements	(330,831)	(6,470,252)	(1,226,425)	(390,345)	-	(8,417,853)
Reclassification	17,337,896	169,612,184	27,334,445	18,228,430	(232,512,955)	-
Reversal of impairment provision	194,118	-	-	-	225,139	419,257
Impairment charge	-	-	(285,357)	(53,783)	-	(339,140)
Revaluation	60,933,060	853,169,876	107,715,837	30,848,611	-	1,052,667,384
Depreciation	(6,526,340)	(139,501,754)	(18,209,347)	(16,237,031)	-	(180,474,472)
Closing net book amount	223,169,006	2,789,662,271	332,617,485	112,433,702	70,702,004	3,528,584,468
31 December 2007						
Cost or revaluation	304,498,609	3,778,362,964	473,681,081	178,930,385	71,237,370	4,806,710,409
Accumulated depreciation and impairment	(81,329,603)	(988,700,693)	(141,063,596)	(66,496,683)	(535,366)	(1,278,125,941)
Net book amount	223,169,006	2,789,662,271	332,617,485	112,433,702	70,702,004	3,528,584,468

6. Property, plant and equipment (continued)

COMPANY	Buildings	Structures and electricity network	Machinery and equipment	Other PPE	Construction in progress	Total
At 1 January 2006.						
Cost or revaluation	206,229,313	2,646,699,739	322,792,824	81,635,649	29,816,431	3,287,173,956
Accumulated depreciation and impairment	(70,276,295)	(727,837,271)	(110,509,411)	(38,697,557)	(1,020,295)	(948,340,830)
Net book amount	135,953,018	1,918,862,468	212,283,412	42,938,092	28,796,136	2,338,833,126
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	7,532,862	188,295,692	200,506,418
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	48,635,458	55,454,618	2,359,386,009
31 December 2006						
Cost or revaluation	209,234,220	2,765,712,529	336,411,169	94,071,476	56,215,123	3,461,644,517
Accumulated depreciation and impairment	(74,699,423)	(857,481,836)	(123,880,726)	(45,436,018)	(760,505)	(1,102,258,508)
Net book amount	134,534,797	1,908,230,693	212,530,443	48,635,458	55,454,618	2,359,386,009
Year ended 31 December 2007						
Opening net book amount	134,534,797	1,908,230,693	212,530,443	48,635,458	55,454,618	2,359,386,009
Additions	406,298	1,877,050	2,197,849	6,563,588	247,432,023	258,476,809
Disposals	(299,978)	(13,513)	(5,352)	(201,625)	-	(520,469)
Retirements	(330,831)	(6,469,656)	(1,222,718)	(380,434)	-	(8,403,639)
Reclassification	17,337,896	169,612,183	27,334,437	18,228,439	(232,512,955)	-
Reversal of impairment provision	194,118	-			225,139	419,257
Impairment charge	-	-	(285,358)	(53,783)	-	(339,141)
Revaluation	60,933,060	853,169,876	107,715,838	30,848,611	-	1,052,667,384
Depreciation	(5,734,271)	(139,268,440)	(17,791,312)	(10,640,701)	-	(173,434,724)
Closing net book amount	207,041,089	2,787,138,193	330,473,827	92,999,553	70,598,825	3,488,251,486
31 December 2007.						
Cost or revaluation	286,782,976	3,775,548,224	470,614,595	144,486,610	71,134,191	4,748,566,595,
Accumulated depreciation and impairment	(79,741,887)	(988,410,031)	(140,140,768)	(51,487,057)	(535,366)	(1,260,315,109)
Net book amount	207,041,089	2,787,138,193	330,473,827	92,999,553	70,598,825	3,488,251,486

6. Property, plant and equipment (continued)

Retirements mainly represent structures and electricity network equipment which had been replaced due to their damage or request by the customers of the Group and the Company.

The last revaluation of the Group's and the Company's property, plant and equipment was based on the fair values on 31 December 2007. 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. Property, plant and equipment increased by LTL 1,052,667,384 due to revaluation as at 31 December 2007.

A part of revaluation increase amounting to LTL 49,417,757 was charged to profit and loss as it reverses a revaluation decrease of the same assets previously recognized in profit and loss (Note 2.5). The other part, amounting to LTL 1,003,249, 627 was charged directly to revaluation reserve in equity.

7. Intangible assets

GROUP	Software	Other intangible assets	Total
1 January 2006			
Cost	8,034,430	448,737	8,483,167
Accumulated amortisation	(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
31 December 2006			
Cost	9,345,821	448,737	9,794,558
Accumulated amortisation	(6,602,787)	(312,482)	(6,915,269)
Net book amount	2,743,034	136,255	2,879,289
Year ended 31 December 2007			
Opening net book amount	2,743,034	136,255	2,879,289
Additions	10,103,302	-	10,103,302
Amortisation	(2,202,077)	(79,860)	(2,281,937)
Closing net book amount	10,644,259	56,395	10,700,654
At 31 December 2007			
Cost	18,677,769	448,737	19,126,506
Accumulated amortisation	(8,033,510)	(392,342)	(8,425,852)
Net book amount	10,644,259	56,395	10,700,654

(All tabular amounts are in the litas (LTL), unless otherwise stated)

7. Intangible assets (continued)

COMPANY	Software	Other intangible assets	Total
At 1 January 2006			
Cost	8,034,430	448,737	8,483,167
Accumulated amortisation	(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 amortisation	(6,602,787)	(312,482)	(6,915,269)
Net book amount	2,743,034	136,255	2,879,289
Year ended 31 December 2007			
Opening net book amount	2,743,034	136,255	2,879,289
Additions	10,096,419		10,096,419
Amortisation	(2,200,992)	(79,860)	(2,280,852)
Closing net book amount	10,638,461	56,395	10,694,856
At 31 December 2007			
Cost	18,670,886	448,737	19,119,623
Accumulated amortisation	(8,032,425)	(392,342)	(8,424,767)
Net book amount	10,638,461	56,395	10,694,856

Intangibles have increased in 2007 due to investments into electricity accounting and information system.

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

8. Investments in subsidiaries

	COMPANY	
	2007	2006
Beginning of the year	36,643,000	34,685,000
Contribution to the share capital of subsidiaries	-	1,958,000
End of the year	36,643,000	36,643,000

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.

9. Non-current receivables and prepayments

	GROUP		COMPANY	
	2007	2006	2007	2006
Prepayments for PPE and IA	3,565,233	4,193,790	3,565,233	4,193,790
Mortgage loans granted	3,171,006	3,389,128	3,171,006	3,389,128
	6,736,239	7,582,918	6,736,239	7,582,918

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 369,694 (2006: LTL 387,132) 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	
	2007	2006	2007	2006
Fair value of mortgage loans granted	4,023,139	4,546,839	4,023,139	4,546,839
Carrying amount of mortgage loans granted	3,540,700	3,776,260	3,540,700	3,776,260

The fair values of mortgage loans granted are based on cash flows discounted using the borrowings rate of 5.63% (2006: 4.99%). The effective interest rate on mortgage loans granted was 7.56%.

10. Inventories

	GROUP		COMPANY	
	2007	2006	2007	2006
Materials and spare parts	5,987,376	4,143,104	1,027,953	1,093,298
Electric meters	2,183,998	882,439	2,179,615	876,963
Fuel	246,931	252,713	6,064	6,295
Other	272,617	549,543	106,392	323,423
	8,690,922	5,827,799	3,320,024	2,299,979

11. Trade and other receivables

	GROUP		COMPANY	
	2007	2006	2007	2006
Trade receivables:				
Trade receivables	98,701,690	85,273,203	97,618,415	84,102,154,
Accrued income for electricity sales	8,859,490	8,580,111	8,859,490	8,580,111,
Less: impairment provision	(11,648,540)	(11,025,496)	(11,611,403)	(11,006,942)
	95,912,640	82,827,818	94,866,502	81,675,323
Receivables from subsidiaries (Note 30)	-	-	1,273,237	272,046
Receivables from state controlled entities(Note 30):				
Receivables from state controlled entities	7,801,156	8,496,523	7,801,156	8,496,523
Less: impairment provision	(6,860,460)	(7,088,342)	(6,860,460)	(7,088,342)
	940,696	1,408,181	940,696	1,408,181
Loans granted to subsidiaries (Note 30)	-	-	3,000,000	4,000,000
Current portion of mortgage loans granted (Note 9)	369,694	387,132	369,694	387,132
Prepaid and recoverable taxes, other than income tax (Note 30)	379,762	3,011,025	379,302	3,011,025
Deferred charges	1,576,880	,244,247	1,487,204	175,670
Other receivables	1,496,964	2,084,768	1,402,176	2,001,341
	100,676,636	89,963,171	103,718,811	92,930,718

Accrued income for electricity sales was estimated as 1/3 of payment received from customers in January (Note 2.21a).

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

Impairment for trade receivables is recognised when there is objective evidence that the Group and the Company will not be able to collect all amounts due to client's bankruptcy or if the payment from the customer is delayed for more when 2 months. The Group and the Company have established a 100% provision for all amounts that are more than 1 year past due.

The table below discloses information on trade receivable which were overdue at the balance sheet date but not impaired:

	2007	2006
Up to 1 month	2,918,005	2,634,539
1 to 3 months	103,827	8,829
From 3 months	53,403	74,829
	3,075,235	2,718,197

Other classes within trade and other receivables and prepayments do not contain impaired assets.
Provisions for trade and other receivables were as follows:

	GROUP		COMPANY	
	2007	2006	2007	2006
Beginning of the year	18,113,838	18,534,745	18,095,284	18,474,955
Change in impairment of accounts receivable	395,162	(420,907)	376,579	(379,671)
End of the year	18,509,000	18,113,838	18,471,863	18,095,284

12. Derivative financial instruments

On 21 June 2006, the Group and the Company concluded an interest rate swap agreement for the period from 23 January 2006 to 23 December 2010. The Group and the Company set a fixed interest rate at 3.75 per cent and a floating interest rate at 6 Month EURIBOR.
The notional amount of the transaction was LTL 32.28 million as at 31 December 2007 and LTL 42.99 million as at 31 December 2006.
Changes in the fair value of derivative instruments are recognized immediately in the income statement within other gains (losses) – net.

13. Cash and cash equivalents

	GROUP		COMPANY	
	2007	2006	2007	2006
Cash at bank	3,737,295	619,516	3,497,851	106,452
Cash on hand	116,785	51,884	116,785	51,884
Cash in transit	272,780	890,400	272,780	890,400
	4,126,860	1,561,800	3,887,416	1,048,736

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

	GROUP		COMPANY	
	2007	2006	2007	2006
Cash and cash equivalents	4,126,860	1,561,800	3,887,416	1,048,736
Bank overdraft (Note 18)	(34,174,748)	(42,785,185)	(31,293,747)	(39,437,179)
	(30,047,888)	(41,223,385)	(27,406,331)	(38,388,443)

14. Share capital

As at 31 December 2007, the Company's authorised share capital comprised 492,404,653 (2006: 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 2007.

15. 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 2007, the Group's and the Company's legal reserve amounted to LTL 49,409,220 (2006: LTL 49,356,490) and LTL 49,240,465 (2006: LTL 49,240,465), respectively.

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 2007 the Group's and the Company's revaluation reserve increased by LTL 1,003,249,627 due to revaluation of property, plant and equipment. The Group's revaluation reserve amounted to LTL 1,913,340,243 as at 31 December 2007 (2006: LTL 1,166,123,149) and the Company's - LTL 1,906,786,862 (2006: LTL 1,158,657,074) 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 2007, the Group's and the Company's other reserves amounted to LTL 160,207,278 (2006: LTL 61,850,362) and LTL 158,521,273 (2006: LTL 60,574,527), respectively.

16. Other long term liabilities

	GROUP		COMPANY	
	2007	2006	2007	2006
Deferred income of customer connection fees	102,387,645	61,654,560	102,387,645	61,654,560
Grants, subsidies (Note 30)	7,406,522	3,908,130	7,406,522	3,908,130
Deferred income of services relating to public interests	495,531	-	495,531	-
Deferred income for electricity equipment movement services	2,858,630	-	2,858,630	-
Long-term employee benefits	4,267,734	3,812,586	4,267,734	3,812,586
Payables for bought out electricity distribution equipment (Note 29)	1,145,083	1,118,531	1,145,083	1,118,531
	118,561,145	70,493,807	118,561,145	70,493,807

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

17. Trade and other payables

	GROUP		COMPANY	
	2007	2006	2007	2006
Trade payables	90,720,384	66,413,619	82,311,887	58,989,600
Amounts due to subsidiaries (Note 30)	-	-	11,794,503	10,965,814
Amounts due to state controlled entities (Note 30)	72,938,758	49,218,710	72,938,758	49,218,710
Advances received	58,223,869	39,691,266	58,208,521	39,685,259
Deferred income of customer connection fees	3,590,862	2,382,909	3,590,862	2,382,909
Accruals and deferred income	6,725,634	5,227,013	5,101,692	4,028,091
Taxes other than income tax (Note 30)	861,487	2,116,674	63,443	907,421
Social insurance contributions (Note 30)	3,799,798	3,266,303	2,819,643	2,392,387
Other current liabilities	620,792	476,660	616,634	472,321
	237,481,584	168,793,154	237,445,943	169,042,512

18. Borrowings

	GROUP		COMPANY	
	2007	2006	2007	2006
Non-current				
Bank borrowings	95,835,917	80,362,769	95,835,917	80,362,769
Current				
Bank overdrafts	34,174,748	42,785,185	31,293,747	39,437,179
Bank borrowings	19,054,852	19,054,852	19,054,852	19,054,852
	53,229,600	61,840,037	50,348,599	58,492,031
Total borrowings	149,065,517	142,202,806	146,184,516	138,854,800

(All tabular amounts are in the litas (LTL), unless otherwise stated)

18. Borrowings (continued)

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	
	2007	2006	2007	2006
Between 1 and 2 years	19,054,852	19,054,852	19,054,852	19,054,852
Between 2 and 5 years	66,422,665	61,307,917	66,422,665	61,307,917
Over 5 years	10,358,400	-	10,358,400	-
	95,835,917	80,362,769	95,835 917	80,362,769

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

	GROUP		COMPANY	
	2007	2006	2007	2006
Bank overdrafts	5.3%	4.0%	5.2%	4.0%
Bank borrowings	5.1%	4.3%	5.1%	4.3%

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	
	2007	2006	2007	2006
Lithuanian Litas	34,174,748	42,785,185	31,293,747	39,437,179
Euro	114,890,769	99,417,621	114,890,769	99,417,621
	149,065,517	142,202,806	146,184,516	138,854,800

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

	GROUP		COMPANY	
	2007	2006	2007	2006
– Bearing floating interest rate and expiring within one year	22,775,251	26,714,814	17,706,253	22,562,821
– Bearing floating interest rate and expiring after one year	24,169,600	-	24,169,600	-

The borrowings outstanding as at 31 December 2007 were subject to a number of covenants. The management believes that the Group and the Company have complied with those covenants.

(All tabular amounts are in the litas (LTL), unless otherwise stated)

19. 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	
	2007	2006	2007	2006
Deferred tax assets:				
– to be recovered after more than 12 months	4,117	169,265	-	-
– to be recovered within 12 months	58,506	321,623	-	-
	62,623	490,888	-	-
Deferred tax liabilities:				
– to be recovered after more than 12 months	326,375,639	205,210,188	326,462,820	205,328,569
– to be recovered within 12 months	45,893,458	20,147,249	45,966,033	20,147,249
	372,269,097	225,357,437	372,428,853	225,475,818
Deferred tax liabilities:	372,206,474	224,866,549	372,428,853	225,475,818

The gross movement on the deferred income tax account is as follow

	GROUP		COMPANY	
	2007	2006	2007	2006
Beginning of the year	224,866,549	248,449,588	225,475,818	248,881,991
Increase relating to the revalued property, plant and equipment – recognised directly in equity	150,487,444	-	150,487,444	-
Charged (credited) to income statement (Note 25)				
Charged (credited) to income statement due to fixed assets revaluation	7,412,664	-	7,412,664	-
Charged (credited) to income statement	(10,560,183)	(23,583,039)	(10,947,073)	(23,406,173)
	(3,147,519)	(23,583,039)	3,534,409	(23,406,173)
End of the year	372,206,474	224,866,549	372,428,853	225,475,818

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**
1 January 2006	(364,062)	(2,887,184)	(15,152,497)	(6,635,933)	(25,039,676)
Charged (credited) to income statement	334,136	(1,356,823)	801,097	(3,041,175)	(3,262,765)
31 December 2006	(29,926)	(4,244,007)	(14,351,400)	(9,677,108)	(28,302,441)
Charged (credited) to income statement	330	45,372	8,253,562	5,666,936	13,966,200
31 December 2007	(29,596)	(4,198,635)	(6,097,838)	(4,010,172)	(14,336,241)

19. Deferred income tax (continued)

Deferred tax liabilities	Tax relief on acquisition of PPE	Revaluation of PPE (value increased)	Differences in depreciation rates	Total
1 January 2006	19,531,497	247,640,112	6,317,655	273,489,264
Charged (credited) to income statement	(2,375,657)	(24,656,636)	6,712,019	(20,320,274)
31 December 2006	17,155,840	222,983,476	13,029,674	253,168,990
Charged (credited) to income statement	(1,621,223)	(22,541,812)	7,049,316	(17,113,719)
Charged to directly to equity	-	150,487,444	-	150,487,444
1 January 2006	15,534,617	350,929,108	20,078,990	386,542,715

COMPANY

Deferred tax assets	Impairment of PPE	Accrued expenses	Revaluation of PPE (value decreased)	Deferred income on customer connection fees	Total
1 January 2006	(364,062)	(2,711,474)	(15,152,497)	(6,635,933)	(24,863,966)
Charged (credited) to income statement	334,136	(1,311,073)	801,097	(3,041,175)	(3,217,015)
31 December 2006	(29,926)	(4,022,547)	(14,351,400)	(9,677,108)	(28,080,981)
Charged (credited) to income statement	330	25,896	8,253,562	5,666,936	13,946,724
31 December 2007	(29,596)	(3,996,651)	(6,097,838)	(4,010,172)	(14,134,257)

Deferred tax liabilities	Tax relief on acquisition of PPE	Revaluation of PPE (value increased)	Differences in depreciation rates	Total
1 January 2006	19,531,497	247,640,112	6,574,348	273,745,957
Charged (credited) to income statement	(2,375,657)	(24,656,636)	6,843,135	(20,189,158)
31 December 2006	17,155,840	222,983,476	13,417,483	253,556,799
Charged (credited) to income statement	(1,621,223)	(22,541,812)	6,681,902	(17,481,133)
Charged to directly to equity	-	150,487,444	-	150,487,444
31 December 2007	15,534,617	350,929,108	20,099,385	386,563,110

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 22,541,812 (2006: LTL 24,619,196) 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.

20. Finance income

The Group's and the Company's finance income consist of bank interest income of LTL 259,245 (2006: LTL 738,903) and LTL 256,373 (2006: LTL 738,285), respectively.

21. Finance costs

	GROUP		COMPANY	
	2007	2006	2007	2006
Interest expense on borrowings	5,829,117	4,122,875	5,660,334	3,989,300
Foreign exchange transaction losses	830	734	830	729
	5,829,947	4,123,609	5,661,164	3,990,029

22. Other income

	GROUP		COMPANY	
	2007	2006	2007	2006
Dividend income	-	-	421,836	927,907
Fines received	691,626	597,838	689,027	585,282
Interest income on loans granted	156,168	163,517	453,656	335,377
Other	21,363	472,943	12,986	437,963
	869,157	1,234,298	1,577,505	2,286,529

23. Other gains (losses) – net

	GROUP		COMPANY	
	2007	2006	2007	2006
Gain (loss) on disposal of fixed assets	353,299	14,557	255,118	(43,236)
Derivatives – interest rate swaps	159,920	255,321	159,920	255,321
	513,219	269,878	415,038	212,085

24. Other expenses

	GROUP		COMPANY	
	2007	2006	2007	2006
Retirement of property, plant and equipment (Note 6)	8,417,853	10,381,743	8,403,639	10,245,050
Cost of goods sold	996,616	1,550,915	8,362,840	5,157,172
Cost of construction services	5,262,395	2,140,262	5,594,035	2,600,837
Cash collection	5,383,729	5,445,528	5,383,729	5,445,528
Taxes other than income tax (Note 29)	4,757,879	5,279,433	3,881,063	4,415,753
Insurance	2,886,771	2,080,379	2,669,417	1,915,154
Cleaning	2,321,230	1,615,496	2,125,146	1,517,844
Communication	2,398,662	2,509,411	2,088,585	2,221,004
Training	1,304,314	822,849	1,140,478	707,587
Change in impairment of accounts receivable and write offs	1,115,765	1,423,721	1,110,057	1,445,932
Consulting	1,068,299	1,250,977	888,479	1,192,753
Stationery	896,674	674,468	833,185	598,618
Security	932,105	796,217	652,958	536,429
Publishing	623,301	332,027	623,301	329,209
Operating lease	400,331	406,444	610,551	539,905
Advertising, public relations	731,945	1,217,379	587,252	1,035,137
Heating	587,635	520,535	568,643	505,067
Asset management costs	495,404	1,507,082	487,506	1,497,371
Business trips	548,692	598,091	468,064	524,640
Charity, support	449,500	782,900	449,500	782,900
Other	1,149,036	2,672,280	2,869,564	1,432,059
	42,728,136	44,008,137	49,797,992	44,645,949

25. Income tax expense

	GROUP		COMPANY	
	2007	2006	2007	2006
Current tax	17,078,345	28,272,893	16,611,392	27,668,331
Deferred tax (Note 19)	(3,147,519)	(23,583,039)	(3,534,409)	(23,406,173)
	13,930,826	4,689,854	13,076,983	4,262,158

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	
	2007	2006	2007	2006
Profit before income tax	88,236,282	27,044,591	85,908,875	26,337,807
Tax calculated at 18% (2006: 19%)	15,882,531	5,138,472	15,463,598	5,004,183
Income not subject to tax	(1,448,962)	(517,413)	(519,826)	(680,092)
Expenses not deductible for tax purposes	2,159,620,	378,654	794,944	235,569
Charity expenses deductible twice for tax purposes	(162,450)	(309,859)	(161,820)	(297,502)
Change in tax rate	(1,482,533)	(72,975)	(1,482,533)	84,132
Effect of change in revenue recognition principles	(1,017,380)	-	(1,017,380)	-
Tax charge	13,930,826	4,689,854	13,076,983	4,262,158

25. Income tax expenses (continued)

In 2007, the Company applied to the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania regarding the recognition of revenue received for connection of electricity equipment of new customers to the electricity network for tax purposes. The State Tax Inspectorate allowed the Company recognising revenue for tax purposes under the following principles:

a) when during the connection process assets are developed or their value is increased, connection contributions are recognised as revenue over the period of the use of assets.
b) when during the connection process assets are not developed, such revenue must be immediately recognised for income tax calculation purposes.

The State Tax Inspectorate allowed the Company applying the above-mentioned principles of revenue recognition from 2005. The effect on income taxes due to the change in revenue recognition for tax purposes was accounted for in 2007

26. 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 annual ordinary shares during the year.

	GROUP		COMPANY	
	2007	2006	2007	2006
Profit attributable to equity holders of the Company	74,305,456	22,354,737	72,831,892	22,075,649
Weighted average number of ordinary shares in issue during the year	492,404,653	492,404,653	492,404,653	492,404,653
Basic earnings per share (LTL per share)	0.15	0.045	0.15	0.045

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 29, for the contributions in kind of electricity distribution equipment that are under common use by their owners and the Company. As at 31 December 2007 the Company's received requests 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 48,944,000 (2006: LTL 50,100,000). 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.

27. Dividends per share

Annual General Shareholders' Meeting held on 25 April 2007 declared dividend of LTL 0.07 per share for 2006, amounting to a total dividend of LTL 34,468,326 (2006: LTL 34,468,326)

28. Contingencies

Tax audits

No full-scope tax audits were carried out by the tax authorities at the Company and its subsidiaries for the years 2003-2007. 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.

28. Contingencies (continued)

Financial guarantees
The Company issued guarantee to SEB Bankas AB amounting to LTL 7,950,000 in order to guarantee the loan granted by the bank to subsidiaries. As at 31 December 2007, the outstanding balance of the loan amounted to LTL 2,881,001 (the outstanding balance of the loan due from Rytra UAB amounted to LTL 406,686; the outstanding balance due from Elektros Tinklo Paslaugos UAB – LTL 1,897,546; the outstanding balance due from Tetas UAB – LTL 576,769). As at 31 December 2006, the outstanding balance of the loan amounted to LTL 3,348,006 (the outstanding balance of the loan due from Elektros Tinklo Paslaugos UAB amounted to LTL 2,790,349 and the outstanding balance due from Tetas UAB amounted to LTL 557,657). The agreement is valid until 6 June 2008.

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

29. Commitments

Buy out of electricity distribution equipment that are under common use by the owner and the Company
Pursuant to order No. 4-450 of the Minister of Economy of the Republic of Lithuania dated 3 December 2003 and as amended with order No. 4-72 dated 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 electricity grid, 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 (payments in cash).
The time for submitting request to buy out electricity equipment expired on 31 December 2005, however, under order No. 1281 of the Government of the Republic of Lithuania dated 5 December 2007 the time for submitting documents by gardeners' partnerships was extended:
(1) Requests to buy out assets from energy enterprises must be submitted until 1 July 2009;
(2) Documents supporting the owner's title to redeemable assets, in case they are not submitted together with the request to buy out assets, must be submitted until 31 December 2009.
As at 31 December 2007, 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 4,100 thousand and approximately LTL 48,944 thousand, respectively (2006: LTL 4,200 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 Company is obliged to settle with owners of this electricity distribution equipment until 31 December 2010. Pursuant to the legal acts of the Republic of Lithuania shareholders of the Company have the right to make a decision regarding the issuance of new shares. Shareholders of the Company have not passed such a decision at this reporting date.

30. Related-party transactions

As at 31 December 2007, 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 controlled 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	
	2007	2006	2007	2006
Subsidiaries	-	-	10 568 798	9 527 452
State controlled entities	8,439,395	15,094,853	8 439 395	15 094 853
	8,439,395	15,094,853	19 008 193	24 622 305

(All tabular amounts are in the litas (LTL), unless otherwise stated)

30. Related-party transactions (continued)

(b) Purchases of goods and services

	GROUP		COMPANY	
	2007	2006	2007	2006
Subsidiaries	-	-	93,753,178	84,183,867
State controlled entities	605,879,748	509,636,128	605,879,748	509,636,128
	605,879,748	509,636,128	699,632,926	593,819,995

(c) Tax expenses – the Government

	GROUP		COMPANY	
	2007	2006	2007	2006
Income tax (Note 25)	13,930,826	4,689,854	13,076,983	4,262,158
Taxes, other than income tax (Note 24)	4,757,879	5,279,433	3,881,063	4,415,753
Social security and other payroll related contributions	33,157,357	26,764,121	23,354,239	19,621,670
	51,846,062	36,733,408	40,312,285	28,299,581

(d) Key management compensation

	GROUP		COMPANY	
	2007	2006	2007	2006
Salaries and other short-term employee benefits	1,663,897	1,461,803	1,663,897	1,461,803

Key management includes 7 (2006: 7) members of the management of the Company. As at 31 December 2007 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 (2006: LTL 23,112).

During 2007 total compensation to the Company's Board members or their delegating institutions amounted to LTL 55,000 (2006: 35,000).

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

Receivables from related parties (Note 11):

	GROUP		COMPANY	
	2007	2006	2007	2006
Trade receivables from state controlled entities	7,801,156	8,496,523	7,801,156	8,496,523
Less provision for impairment of receivables	(6,860,460)	(7,088,342)	(6,860,460)	(7,088,342)
Trade receivables from state controlled entities – net	940,696	1,408,181	940,696	1,408,181
Subsidiaries	-	-	1,273,237	272,046
	940,696	1,408,181	2,213,933	1,680,227

Amounts due to related parties (Note 17):

	GROUP		COMPANY	
Amounts payable to related parties	2007	2006	2007	2006
Subsidiaries	-	-	11,794,503	10,965,814
State controlled entities	72,938,758	49,218,710	72,938,758	49,218,710
	72,938,758	49,218,710	84,733,261	60,184,524
Government grants relating to purchases of PPE (Note 16)	7,406,522	3,908,130	7,406,522	3,908,130

(All tabular amounts are in the litas (LTL), unless otherwise stated)

30. Related-party transactions (continued)

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

Prepaid taxes:	GROUP		COMPANY	
	2007	2006	2007	2006
Prepaid current income tax	2,583,332	211,472	2,442,192	80,557
Prepaid taxes, other than income tax (Note 11)	379,762	3,011,025	379,302	3,011,025
	2,963,094	3,222,497	2,821,494	3,091,582

Taxes payable:	GROUP		COMPANY	
	2007	2006	2007	2006
Current income tax	208,225	9,193,347	0	8,890,452
Social security contributions (Note 17)	3,799,798	3,266,303	2,819,643	2,392,387
Taxes other than income tax (Note 17)	861,487	2,116,674	63,443	907,421
	4,869,510	14,576,324	2,883,086	12,190,260

Deferred taxes (Note 19):	GROUP		COMPANY	
	200	2006	2007	2006
Deferred income tax assets	62,623	490,888	-	-
Deferred income tax liabilities	372,269,097	225,357,437	372,428,853	225,475,818

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

	COMPANY	
	2007	2006
Beginning of year	4,000,000	2 000 000
Loans advanced during the year	(1,000,000)	2 000 000
Interest income	299,165	138 789
Interest received	(299,165)	(138 789)
End of year	3,000,000	4 000 000

31. Non-cash transactions

There were no non-cash transactions for the year ended 31 December 2007. During 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. There were no significant non-cash transactions in the consolidated financial statements of the Group for the year ended 31 December 2006.

(All tabular amounts are in the litas (LTL), unless otherwise stated)

32. Reclassification of comparative amounts

When preparing financial statements for the year ended 31 December 2007 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 2006. As a result the following reclassifications were made:

	As at 31 December 2006					
	GROUP			COMPANY		
Balance sheet	**Before reclassifi-cation**	**Reclassifi -cation**	**After reclassifi-cation**	**Before reclassifi-cation**	**Reclassifi -cation**	**After reclassifi-cation**
Property plant and equipment	2,398,484,723	(1,161,343)	2,399,646,066	2,358,224,666	(1,161,343)	2,359,386,009
Inventories	6,989,142	1,161,343	5,827,799	3,461,322	1,161,343	2,299,979

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

33. Post balance sheet events

On 1 February 2008, the Seimas of the Republic of Lithuania adopted amendments to the Law on Nuclear Power Plant validating the foundation of the national investor LEO LT to which shares of RST, the state controlled companies Lietuvos Energija AB and the private company NDX Energija to be transferred (VST AB)..

Rytų Skirstomieji Tinklai AB Group Consolidated Annual Report for 2007

1. GENERAL INFORMATION

This Annual Report of Rytų Skirstomieji Tinklai AB (hereinafter "the RST") 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 RST's shareholders, creditors and other stakeholders describes the RST's performance over the financial year 2007, the RST'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 RST together with its Subsidiaries Elektros Tinklo Paslaugos UAB, Rytra UAB and Tetas UAB (hereinafter "the Subsidiaries") constitute Rytų Skirstomieji Tinklai AB group of companies (hereinafter "the Group").
Key data of the Company and its Subsidiaries is given in Tables 1.1 and 1.2 below.

Table 1.1. Information of 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
Date and place of incorporation	31 December 2001, Lithuanian Ministry of Economy
Data of the Company are compiled and stored with the register	Register of Legal Entities

Table 1.2. Information of 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
Date and place of incorporation	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
Telephone	(8-5) 210 68 09	(8-5) 210 65 39	(8-45) 504 577
	etp@rst.lt	rytra.info@rst.lt	sigita.bertuliene@rst.lt
	www.etp.rst.lt	www.rytra.lt	no
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

The RST'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 RST is an operator of the distribution network responsible for the development and maintenance of low and medium voltage electricity network.
In addition, the RST is a public electricity supplier, which supplies electricity to all residents and other applicant consumers within the territory of its service.
The Company has its head office and four regional structural units located in Vilnius, Panevėžys, Alytus, and Utena. The RST has 25 territorial customer service centres.
For the purpose of streamlining the RST's principal activities (electricity distribution and supply) and improve their efficiency, the RST established 3 subsidiaries during 2004 and 2005.
Elektros Tinklo Paslaugos UAB principal activities include construction, repair, maintenance and testing of electricity network.
Rytra UAB provides transport services (leases passenger and heavy motor vehicles and special purpose machinery for digging, construction, and other works).
Tetas UAB principal activities include construction, reconstruction, repair and maintenance of transformer substations and distribution stations.
The key objective of the Subsidiaries is to render services to the Group along with external customers continuously added to their customer base.
Since over 90 per cent of revenue is derived by the Subsidiaries from the Group, consolidated performance indicators do not significantly differ from the RST's performance indicators, therefore, the Annual Report comprises a consolidated overview of performance of both, the RST and the Group.

Business development

Given a constantly growing local economy, use of support of the EU Structural Funds and rapidly developing real estate market, 14.7 thousand new customers were connected to the distribution network operated by the RST during 2007, and the total number of customers increased up to 745.8 thousand at the end of the year. In 2007, admissible electric power of newly connected customers was 189.6 MW, which is more by 1.5 times as compared to 2006.

Investments

For the purpose of improving the reliability of electricity supply and the quality of services rendered as well as ensuring business development through connection of new customers to the distribution network, the RST renovates, reconstructs and modernises non-current assets. In 2007, the RTS's investments in non-current assets amounted to LTL 265.2 million, which is more by 32 per cent as compared to 2006.
The RST receives the following benefits through investments in the reconstruction and construction of electricity network:

- *Reduction in electricity technological costs and commercial losses;*
- *Reduction in the number of breakdowns and their elimination costs;*
- *Reduction in the amount of unsupplied electricity;*
- *Extension of the use of electricity equipment and facilities.*

Direct benefits received do not ensure return on investments over the short period, however in a long-term economic-social benefit for business development, society (benefit to consumers, local economy, employees, etc) and reduction of adverse effect on environment is taken into consideration.

Customer service
The RST's principal objectives include improvement of customer service quality.
For the purpose of improving customer service quality by phone a short number 1802 was used and in average 15 clients were served per hour in 2007. In addition, attention is focused on the improvement of service quality of clients arriving directly to the RST. The northern Vilnius city customer service division was moved to a newly constructed building, a part of customer service premises was renovated, a client flow management system was introduced, a "secret customer" research is conducted, and client service personnel is trained and certified.
In 2007, a self-service website "Mano Elektra" (*engl. My Electricity*) was also rapidly developed. Customers can use this website for ordering various services, informing of electricity supply breakdowns, corporate customer can make payments for electricity used.

Environment
The RST, as a distribution network operator and a public supplier, observes the principles of sustainable development and pollution prevention in view of which it regularly replaces harmful substances remaining in engineering networks with more secure ones and installs facilities to collect insulating oil of transformers.

In cooperation with the Ministry of Environment and the Ecology Institute of Vilnius University the RST moves nests of storks resting on electricity lines to more secure places.

When reconstructing transformer substations, old and depreciated power transformers are being placed with more powerful and silent ones that substantially reduce the noise level. Facilities are being installed in reconstructed buildings aiming to preserve landscape and cultural heritage.

Public and support projects
With the aim of becoming a socially responsible group of companies, it contributes to welfare of society and creation of a more attractive environment. In 2007, the RST allocated support for projects reducing social exclusion, prepared and implemented public projects on safe use of electricity indented for pupils of primary schools. The RST has granted support to several cultural, art and sport projects over the year. Employees of the Company take an active part in national environmental projects encouraging to clean environment from electricity and electronic equipment and other waste and contributing to reduction of environment pollution.

2. ANALYSIS OF FINANCIAL PERFORMANCE

In 2007, the RST earned LTL 72.8 million in net profit, which is more by LTL 50.8 million as compared to 2006. Consolidated net profit of the Group amounted to LTL 74.3 million or more by LTL 52 million as compared to 2006.
Better operating results of 2007 were determined by the assessment of the RST's assets conducted by independent valuers. According to the International Accounting Standards property, plant and equipment of the RST are stated at fair value and revalued at least once over a five-year period. Independent valuers conducted the revaluation of the RST's property, plant and equipment to reflect their position as at 31 December 2007. The determined value of assets was recorded in the financial statements of the RST. The effect of revaluation of assets caused the increase in value of the RST's property, plant and equipment by LTL 1,053 million. Upon the increase in value of revalued assets, a negative revaluation result of 2004 was partially reversed. The resulting positive effect on the RST's operating result of 2007 amounted to LTL 42.0 million (net of deferred tax).

Table 2.1. Key financial performance indicators of the RST and Subsidiaries in 2007, LTL million

Indicators	Company group*	RST	Elektros Tinklo Paslaugos UAB	Rytra UAB	Tetas UAB
Operating income	1,068.0	1,070.6	67.3	28.9	15.8
Operating profit	93.8	91.3	1.6	1.0	0.7
Net profit	74.3	72.8	1.1	0.5	0.5
Assets	3,663.0	3,656.6	25.0	30.0	6.5
Investments	273.0	265.2	1.4	6.0	0.3
Borrowings	149.1	146.2	1.9	3.4	0.6

** - consolidated data*

Sales revenue

In 2007, consolidated revenue of the Group increased by 14.4 per cent as compared to 2006 and reached LTL 1.068 million.

In 2007, revenue from sales and services increased by LTl 137.2 million LTL or 14.7 per cent as compared to 2006 and reached LTL 1,070.6 million. The increase in revenue was caused by a larger amount and higher tariffs of electricity sold.

In 2007, the RST sold 4,132 million kWh of electricity to customers, which is more by 4 per cent as compared to 2006. In 2007, an average electricity selling tariff to the end customers increased by 10.5 per cent as compared to 2006 as a result of higher electricity production and transmission prices. In 2007, prices of services rendered by the RST 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.

In 2007, revenue of the Subsidiaries increased as well (by 14%, 9% and 1% of Elektros Tinklo Paslaugos UAB, Rytra UAB and Tetas UAB, respectively) and they earned profit.

Expenses

In 2007, consolidated expenses of the Group increased by 7.8 per cent as compared to 2006 and reached LTL 975.1 million.

In 2007, operating expenses of the RST grew at a lower rate than revenue (by LTL 74.7 million or 8.2 per cent due to the reversal (LTL 49.4 million) of the negative revaluation result of non-current assets.

In 2007, the RST's operating expenses excluding the reversal of the negative revaluation result of non-current assets reached LTL 1,030.3 million, which is more by 13.7 per cent as compared to 2006. The increase in operating expenses was mainly caused by variable expenses (electricity purchase and transmission expenses) that were higher by LTL 89.4 million. This change was affected by a larger amount of electricity purchased and higher electricity production prices. Variable expenses of the RST account for 60 per cent of all expenses.

In 2007, the RST purchased 4,567 million kWh of electricity, which is more by 4.3 per cent as compared to 2006. In 2007, the average actual electricity purchase price was 9.99 ct/kWh, which is higher by 16.4 per cent as compared to 2006. A higher price of electricity was due to the term of scheduled and unscheduled repair works at Ignalina Nuclear Power Plant (hereinafter "the INPP"), and higher price of electricity sold by other producers due to increasing prices of energy resources in the country.

Other expenses (relatively constant expenses excluding expenses of the reversal of the negative result of non-current assets revaluation and financing activities) incurred by the RST in 2007 increased by LTL 34.8 million as compared to 2006 and amounted to LTL 414.7 million. The increase in these expenses was caused by higher repair and maintenance costs (due to higher prices of materials and works in the market), higher payroll and related expenses (due to increased wages and salaries of the Group's employees).

Non-current assets and investments

In 2007, value of the Group's non-current assets increased by LTL 1,135.5 million and reached LTL 3,546.1 million and consolidated investments amounted to LTL 273.0 million (not including the PPE spare parts), which is more by LTL 63.0 million as compared to 2006. Investments of the Subsidiaries for acquisition of non-current assets amounted to LTL 7.7 million. The major portion of this amount represents investments for renovation of vehicle fleet of Rytra UAB.

The increase in value of non-current assets of the Group and the RST was based on the above-mentioned assessment of the RST's property, plant and equipment carried out by independent valuers and larger investments as compared to depreciation and amortisation charges.

In 2007, the RST's investment in non-current assets increased by LTL 64.1 million as compared to 2006 and amounted to LTL 265.2 million. A substantial increase in investments was related to a significantly greater need for new customer connection and higher prices of works in the market. The key investment directions are given in *Table 2.2* below.

Table 2.2. Investments in non-current assets made by the RST

Type of investments	2007	2006	Change	Investment structure in 2007	Investment structure in 2006
	LTL million			%	
Connection of electricity equipment of new customers,	124.4	79.2	45.2	46.9	39.4
0,4-10 kV electricity networks	49.5	45.0	4.4	18.7	22.4
Transformer substations and distribution stations	44.5	40.3	4.2	16.8	20.0
Communication and control systems	14.1	12.3	1.7	5.3	6.1
Computer hardware and software	7.1	6.8	0.3	2.7	3.4
Other investments	25.7	17.5	8.2	9.7	8.7
Total	**265.2**	**201.1**	**64.1**	**100**	**100**

Connection of electricity equipment of new customers accounts for a major portion (47 per cent) of the RST's investments in 2007. As a result of a rapid increase in the number of customers connected to the distribution network and growing permissible power these investments increased by LTL 45.2 million as compared to 2006. These investments are required to be made as effective legal acts oblige the RST to connect to the distribution network all customers that make such a request.

Current assets
In 2007, current assets of the RST increased by LTL 17.2 million and amounted to LTL 114.2 million at the end of the year. In 2007, current assets of the Group increased by LTL 18.7 million and reached LTL 117.0 million. The change in current assets was caused by accounts receivable from the RST's customers that increased due to higher prices of electricity sold and increase in inventories of Subsidiaries.

Shareholders' equity
Consolidated shareholders' equity of the Group increased by LTL 892.6 million as a result of increased revaluation reserve due to revaluation of assets and amounted to LTL 2,785.5 million at the end of 2007.

Liabilities
In 2007, as a result of increase in the carrying amount of the Group's assets that was larger than the change in shareholders' equity, the portion of liabilities assumed increased by LTL 261.5 million and reached LTL 877.6 million. This change was mostly affected by the increase (by LTL 227.9 million) in deferred income tax liabilities, current trade payables and accumulated deferred income from new customers.

As at 31 December 2007, borrowings of the RST increased by LTL 7.3 million as compared to 2006 and amounted to LTL 146.2 million which includes LTL 95.8 million of non-current and LTL 50.3 million of current debts. As at 31 December 2007, borrowings of the Group amounted to LTL 149.1 million.

Performance ratios
In 2007, most of the ratios reflecting the performance of business activities improved as a result of increase in net profit of the RST and the net consolidated profit of the Group due to revaluation of non-current assets (*see Table 2.3*). The changes in the RST's ratios were in line with the trends of changes in the Group, therefore their values were similar.

Table 2.3. Performance ratios

Performance ratios	Group		RST	
	2007	2006	2007	2006
Net profit margin, per cent *Net profit/sales*	7.0%	2.4%	6.8%	2.4%
EBITDA margin, per cent *(EBITDA/total revenue)*	21.2%	22.0%	20.3%	21.2%
Return on equity ratio (ROE), per cent *Net profit/equity*	3.18%	1.18%	3.12%	1.16%
Ratio of general liquidity *Equity/liabilities*	3.17	3.07	3.18	3.09
Debt-to equity ratio *Total debts/total equity*	0.32	0.33	0.31	0.32
Net earnings per share, LTL *Net earnings/number of shares*	0.151	0.045	0.148	0.045

In 2007, the Group's net profit margin increased by 4.6% and was 7.0%. The Group's net earnings per share was LTL 0.15, i.e. more by LTL 0.11 as compared to 2006.
As a result of increase in return on equity by 1.5% up to 3.2%, one litas invested by the shareholder in 2007 earned profit which was larger by LTL 0.015 as compared to 2006.

The Group's EBITDA margin, which measures the portion of EBITDA (*earnings before interest, taxes, depreciation and amortization, reversal of the negative result of non-current assets revaluation, interest*) in total revenue, decreased by 0.8% down to 21.2%.

Due to a larger increase in equity than in liabilities, the ratio of general liquidity increased up to 3.17%. Thus, the Group and the Company have enough resources for increasing its existing liabilities without increasing a portion of authorised share capital.

In 2007, debt-to-equity ratio, which measured the level of liabilities, changed insignificantly up to 0.32. This ratio shows that level of debts of the RST and the Group, following the revaluation of nun-current assets, remains low. The major portion of assets is financed from own equity, which is higher 3 times than the existing liabilities.

3. RISK FACTORS

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

Economic risk factors

The key economic risk factors comprise as follows:

- *Dependency on the main producer of electricity in Lithuania – the INPP.*
- *Effect of electricity market liberalisation.*
- *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 RST directly from the Ignalina Nuclear Power Plant, therefore it is exposed to the risk of unscheduled interruption of activities of the INPP. As a result of interruption of activities of this nuclear power plant, the RST 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 the INPP at the end of 2009 will have a significant impact on the purchase 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) is 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 RST purchases electricity equipment and materials, the prices of which are affected by market trends. The RST'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

The Group acts in energy sector, the activities wherein are substantially regulated under the Lithuanian Law on Electricity. Consequently, it is necessary to consider the effect of possible amendments to the aforementioned law and other regulatory legislation on the Group's operations and performance.

The National Control Commission for Prices and Energy exercises control over the RST'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 RST's Management Board approves specific electricity tariffs for the end customers.

The primary shareholder of the Group is the Government of the Republic of Lithuania with 71.35 per cent of the RST's shares. The state representatives being the Management Board members of the RST also have direct influence over the RST'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 RST 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 RST will loose planned revenue, and elimination of relevant damages will result in additional maintenance costs.

Social risk factors

During the service of electricity consumers, maintenance and modernisation of electricity network, the RST 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 RST acts on a regulated market, it has limited possibilities to compete on the labour market.

Ecological risk factors

The RST 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 RST's operations due to environmental damage is low.

Borrowing repayment risk factors

In line with the guidelines of previous year borrowing programmes, the RST 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.

Financial risk management

To manage its financial risks and minimize variability of interest expenses, given an obvious growth trend in interest rates, the RST entered into interest rate swap transaction. Interest rate swap transaction allows fixing interest rate and keep it at one level during the entire period of the borrowing. Such risk management enables the RST to determine precisely the cash flows necessary to service the debt, prevent possible losses and mitigate non-operational risks.

4. ADDITIONAL INFORMATION ON THE GROUP

The authorised share capital of the RST is comprised of 492,404,653 ordinary registered shares with a nominal value of LTL 1 and a total nominal value of LTL 492,404,653.
No restrictions are imposed on the transfer of securities of the RST. As at 29 December 2007, the total number of shareholders of the RST was 6,270. There are no shareholders of the RST holding special control rights.
On 10 May 2007, the Issuer Service Agreement was signed with the consortium composed of SEB Bankas AB (company code: 112021238, Gedimino pr. 12, LT-01103 Vilnius) and the law firm Adamonis, Beržanskienė ir Partneriai SORAINEN LAW OFFICES (code of the law firm: 9400025, Jogailos g. 4, Vilnius) both represented by the Department of Financial Markets of SEB Bankas AB.
With the effect from 2 May 2007 all 492,404,653 shares of the RST (ISIN code of securities: LT0000126385) have been listed on the Official List of the Vilnius Stock Exchange.
The RST holds proprietary rights to all the shares of the Subsidiaries.

Table 4.1. Shareholders holding more than 5 per cent of the RST's authorised share capital as at 29 December 2007

Full name of the shareholder (company name, type, head office address, code)	Number of ordinary registered shares owned by the shareholder	Percentage of the authorised share capital	Percentage of votes conferred by shares owned	Percentage of votes conferred to the shareholder together with persons acting jointly
State, represented by the Ministry of Economy of the Republic of Lithuania, Gedimino pr. 38/2, Vilnius 1886 21919	351,316,161	71.35	71.35	----
E.ON Ruhrgas International AG, Huttropstrasse 60, Essen, Germany HRB No 10974	99,845,392	20.28	20.28	----

There are no restrictions regarding voting rights at the Group and the RST is not aware of mutual agreements of all shareholders due to which restrictions on transfer of securities or voting rights may be imposed.

The General Shareholder Meeting shall be vested with an exclusive right to amend Articles of Association of the RST and its subsidiaries.
The bodies of the RST are the General Shareholder Meeting, the Supervisory Board, the Management Board and the Manager of the RST.
The bodies of subsidiaries are the General Shareholder Meeting, the Management Board and the Manager of the RST.
The Supervisory Board of the RST, which is composed of five members, is elected (and revoked) by the General Shareholder Meeting for the period of four years. The Supervisory Board elects (and revokes) members of the Group's Management Board for the term of four years.
The Supervisory Board of the RST was elected at the General Shareholder Meeting held on 28 June 2005. The Management Board of the RST was elected for the term of four years at the sitting of the Supervisory Board held on 4 July 2005. Both the Supervisory Board and the Management Board were elected for the term stipulated in the Articles of Association of the RST, i.e. four years.
The Manager of the RST is Rimantas Milišauskas holding a position of the General Director. The General Director is appointed and dismissed by the Management Board of the RST.
A detailed description of powers of bodies of the RST and subsidiaries and procedure of granting and amending these powers are stipulated in the Articles of Association of the RST.

Data on members of the collegial bodies of the RST, the Manager of the RST, the Chief Financial Officer, data on the beginning and end of the term of office of each person and other information is given in *Table 4.2* below.

Table 4.2. Participation of the RST's Supervisory Board, the Management Board, members of the Administration in the authorised share capital of the RST.

Name, surname	Position	Percentage of authorised share capital proc.	Percentage of votes
Supervisory Board (elected under the decision of the General Shareholder Meeting held on 28 June 2005)			
Anicetas Ignotas	Chairman	-	-
Mario Nullmeier	Member	-	-
Saulius Spėčius	Member	-	-
Aušra Pažėraitė	Member	-	-
Nijolė Bujauskienė	Member	-	-
Management Board (re-elected at the sitting of the Supervisory Board held on 4 July 2005)			
Jonas Rimantas Kazlauskas	Chairman	-	-
Rimantas Milišauskas	Member	-	-
* *Rimvydas Rukšėnas*	Member	0.00003	0.00003
Nijolė Sabonienė	Member	-	-
Algimantas Zaremba	Member	-	-
Administration			
Rimantas Milišauskas	General Director	-	-
Valdas Bancevičius	Electricity Network Director	0.00001	0.00001
Saulius Kasparavičius	Electricity Supply Director	-	-
Arvydas Zakalskis	Finance Director	0.001	0.001
Rolandas Baškys	Procurement and Logistics Director	-	-
Rimantas Aliukonis	Law and Personnel Director	-	-
Antosė Muliuolienė,	Chief Financier	0.000002	0.000002

* Rimvydas Rukšėnas died on 12 July 2007

Table 4.3. Data on compensations for members of the RST's managing bodies

	Salaries, LTL	Bonuses, LTL (paid in 2007)	Other payments from profit (dividends), LTL
For members of the Supervisory Board	-	-	-
For all members of the Management Board (5)	-	80,000	10
For one member of the Management Board in average	-	16,000	2
For all member of the Administration (7)	1,507,250	-	120,407
For one member of the Administration in average	215,321	-	17,201

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 for the companies listed on the regulated market, and its specific provisions (information is presented in Annex).

Personnel

The most valuable asset of the Group and a guarantee of its effective and successful operations is qualified and motivated personnel, therefore the Group seeks to create a safe work environment, motivation system and offer entertaining social events so that each employee could feel being an important part of the Group.

As at 31 December 2007, the number of the Group's employees decreased by 17 as compared to the beginning of the year. This change was mostly affected by the decrease in the number of employees of Elektros Tinklo Paslaugos UAB.

Table 4.4. Number of employees of the Group

Group	Number of employees 2006	Number of employees 2007	Change
Group	3,092	3,075	-0.5%
RST	2,139	2,157	0.8%
Elektros Tinklo Paslaugos UAB	586	533	-9.0%
Rytra UAB	252	251	-0.4%
Tetas UAB	133	134	0.8%

As at 31 December 2007, the RST had 2,157 employees, which is more by 18 employees as compared to 31 December 2006. It has been noted that streamlining of the management structure and introduction of modern technologies has caused a constant decrease in the number of workers and a higher demand for qualified staff.

Table 4.5. Number of employees of the RST

Category of the employee	Number of employees 31 December 2006	Number of employees 31 December 2007	Change
Managers	278	282	1,4%
Specialist	1.356	1.414	4,3%
Workers	505	461	-8,7%
Total number of employees	2.139	2.157	0,8%

As a result of observing the changes on a local labour market during 2007, where an average work pay was raised by 18.5%, the RST increased remuneration level of employees and a part of profit earned in 2006 was apportioned for bonuses to employees, and more funds were allocated for investment life insurance of employees and insurance of employees performing functions related to a great professional risk against accidents. These factors caused increase in employee benefits in 2007.

Table 4.6. Average Work Pay at the RST

Position of the employee	Average gross remuneration 2006	Average gross remuneration 2007	Change
Managers and specialists	2,503	2,933	17.2%
Workers	1,633	1,940	18.8%
Total number of employees	2,302	2,711	17.8%

Over the last three years the number of employees with a higher education has increased by 13 per cent. The RST supports employees aiming to acquire higher and non-higher professional education by granting a paid study leave or by paying for studies under bilateral agreements between the RST, the educational institution and the employee. In 2007, a total allocation of LTL 250 thousand was made for that purpose.

Table 4.7. Structure of the RST's employees by education

Education	Number of employees			
	31 December 2006		31 December 2007	
Higher education	848	40%	925	43%
Non-higher professional education	776	36%	769	36%
Secondary	475	22%	433	20%
Other	40	2%	30	1%

In 2007, more than 60 per cent of the RST's employees upgraded their qualification and personal competences in various seminars. More than a half of employees participated in the EU-funded project "Development of professional competences and computer literacy of employees".

The main social guarantees offered to employees of RST are defined under a collective employment contract which is reviewed every two years. The collective employment contract determines the remuneration scheme of employees of the RST, work, economic and social guarantees, and additional guarantees granted to employees (payments in case of accidents, illness, death of close family members, child birth and anniversary benefits, additional paid leave on the birth of the child, entrance into marriage, etc, a higher remuneration tariff than established by the Labour Code for work on holidays (for the unscheduled arrival for work), annul remuneration increase taking into consideration the level of inflation, bonuses from the Company's profit, etc).i.

No agreements have been concluded by the RST, its subsidiaries and members of its managing bodies or employees that would establish compensations in case they would resign or would be dismissed without a sound reason or their employment would terminate due to the change in the control of the RST.

5. Data on publicly announced information

In 2007, the RST publicly announced information on the following significant events:
23 February 2007 – RST's Management Board passed a decision to submit an application to the Vilnius Stock Exchange regarding the listing of securities of the RST on the Official List.

27 February 2007 – a preliminary unconsolidated unaudited result of operations of the RST under the International Financial Reporting Standards was issued.

16 March 2007 – on 16 March 2007, the RST submitted an application to the Vilnius Stock Exchange regarding the listing of securities of the RST on the Official List.

21 March 2007 – RST's Management Board passed a decision to convene an ordinary general meeting of shareholders of Rytų Skirstomieji Tinklai AB at P. Lukšio g. 5B, Vilnius, 10:00 a.m., on 25 April 2007.

13 April 2007 – RST's Management Board passed a decision to approve of and present to the General Shareholder Meeting the consolidated annual report of the RST and the audited financial statements of the Company and the Group for 2006 prepared under the International Financial Reporting Standards.

25 April 2007 – decisions of the ordinary General Shareholder Meeting of the RST were announced.

2 May 2007 – a preliminary consolidated unaudited result of the RST's operations of the first quarter of 2007 under the International Financial Reporting Standards was issued.

15 May 2007 – RST concluded an agreement with SEB Bankas AB on securities account management and dividend payment.

16 May 2007 – RST registered a new version of the Company's Articles of Association with the Register of Legal Entities of the state enterprise Center of Registers.

30 July 2007 – a preliminary consolidated unaudited result of the RST's operations of the first half-year of 2007 under the International Financial Reporting Standards was issued.
31 October 2007 – a preliminary consolidated unaudited result of the RST's operations of three quarters of 2007 under the International Financial Reporting Standards was issued.
31 December 2007 – National Control Commission for Prices and Energy approved public tariff caps of electricity for 2008 at the sitting held on 31 October 2007.

8 November 2007 – Management Board of the RST approved of the draft of electricity prices and tariffs and their application procedure and presented it to the National Control Commission for Prices and Energy for verification and announcement.
29 November 2007 – Management Board of the RST approved of a new version of the draft of electricity prices and tariffs and their application procedure and presented it to the National Control Commission for Prices and Energy for verification and announcement.
30 November 2007 – at the sitting of 30 November 2007 the National Control Commission for Prices and Energy decided to announce electricity prices and tariffs and their application procedure endorsed by the decision of the RST's Management Board that would come into effect as of 1 January 2008.

When fulfilling its obligations established by applicable legal acts regulating the securities market, the RST announces information on significant events as well as other information required by legal acts the EU-wide. Publicly announced information is also available on the website of the RST at the address www.rst.lt and on the website of the Vilnius Stock Exchange at the address www.baltic.omxgroup.com.

Other publicly announced information
In 2007, the RST publicly announced information on started and implemented investment projects directed towards electricity distribution network. The largest and the most investment-consuming projects have been implemented in Vilnius city and Druskininkai resort. In Vilnius transformer substations at Vilnius Airport, in Markučiai and Viršuliškės have been reconstructed. In Druskininkai several large reconstruction projects have been implemented that influenced the development of the city infrastructure. Information on newly installed electricity accounting information system of the RST has been also publicly announced. Electricity consumers have been regularly provided with the information on projected tariffs and changes in prices.

Significant events subsequent to the end of the previous financial year 2007
With effect from 1 January 2008, new electricity prices and tariffs of Rytų Skirstomieji Tinklai AB and their application procedure came into force, which provides for a different final electricity price to corporate customers due to higher electricity production prices. Electricity prices for residents have remained unchanged.

On 1 February 2008, the Seimas of the Republic of Lithuania adopted amendments to the Law on Nuclear Power Plant validating the foundation of the national investor LEO LT as a new parent company joining shares of the state controlled companies Lietuvos Energija AB and RST and the private company NDX Energija.

On 7 February 2008, electricity prices and tariffs of Rytų Skirstomieji Tinklai AB and their application procedure was supplemented with a provision extending the application period of the power tax allowance until the beginning of 2009 for consumers of II and III groups, i.e. farmers receiving electricity through low voltage electricity network and paying for electricity under plan one.

On 18 March 2008, the Management Board of the RST approved of the valuation result of the RST's property, plant and equipment given by independent valuers Korporacija Matininkai UAB and presentation of this result in the financial statements of the RST.

6. OPERATING PLANS AND FORECASTS
Plans of the Group for 2008 do not include change of principal activities. The RST's principal objectives for 2008 include improvement of customer service quality and reliability of electricity supply and distribution.

In 2008, the RST and the Group expect to increase revenue by 10 per cent as compared to 2007 as a result of larger sales of electricity and a higher electricity production price that was caused by the increase in average electricity selling tariff.

In 2008, investments of LTL 245 million in non-current assets are planed. The key investment directions will remain unchanged:

- *Connection of electricity equipment of new customers.*
- *Reconstruction of transformer substations.*
- *Development of 0.4-10 kV electricity network.*

Rimantas Milišauskas
General director

7 April 2008

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 of 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 25 April 2007, 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	No	The Company is not in full compliance with the recommendations defined in Principles III and IV. Taking into consideration the specific nature of the Company's activities (electricity distribution and supply), they are strictly regulated by laws

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.		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. 9.1 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.
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.
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 supervisory board does not make evaluations of qualifications of its members. However it should be noted that the Company's principal activities are electricity distribution and supply and the majority of the members of the supervisory board are experts in the energy field or experts of 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 (information as at 31 December 2007) 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 in 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 in 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 in 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 in 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 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	No	See commentary in item 4.8.

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 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	No	See commentary in item 4.8.

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	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 member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company is in compliance with these recommendations.
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; 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	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.

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 in 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 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.		See commentary in item 8.8.
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		See commentary in item 8.8.

eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in 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 in 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. 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.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		

10.1. The company should disclose information on: 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 and starting from 2008 in the annual 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 should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	Information required in this recommendation was disclosed in the Company's annual prospectus-report for 2006 and is disclosed in the annual report for 2007 (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).
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 applicable	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.