RST

RYTŲ SKIRSTOMIEJI TINKLAI

To The Securities Commission of the Republic of Lithuiania 06 04 2009
Konstitucijos ave. 23
LT-08105 Vilnius

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 21 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Securities Commission of the Republic of Lithuania, we, Rimantas Vaitkus, General Manager of Rytų skirstomieji tinklai AB, and, Arvydas Zakalskis, Director of Finance Department, hereby do confirm that, to the best of our knowledge, the Consolidated Financial Statements of the year 2008 of Rytų skirstomieji tinklai AB have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of Rytų skirstomieji tinklai AB and the Group as well as the Consolidated Annual Report includes a fair review of the development and performance of the business and the position of Rytų skirstomieji tinklai AB and the Group, including description of the main risks and contingencies faced.

General Manager Rimantas Vaitkus

Director of Finance department Arvydas Zakalskis

AB RYTŲ SKIRSTOMIEJI TINKLAI

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS,
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

CONTENTS Pages

INDEPENDENT AUDITORS' REPORT	3 - 4
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS	
BALANCE SHEET	5
INCOME STATEMENT	6
STATEMENT OF CHANGES IN EQUITY	7 - 8
CASH FLOW STATEMENT	9
NOTES TO THE FINANCIAL STATEMENTS	10 - 45
CONSOLIDATED ANNUAL REPORT	46 – 76
GOVERNANCE CODE	77 - 102

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VAT payer code LT108784411
Register of Legal Entities

Independent auditors' report to the shareholders of AB Rytų skirstomieji tinklai

Report on the Financial Statements

We have audited the accompanying financial statements of AB Rytų skirstomieji tinklai, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and consolidated financial statements of AB Rytų skirstomieji tinklai and its subsidiaries (hereinafter the Group), which comprise the balance sheets as of 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the reports of other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

Previous auditors qualified their opinion issued on the financial statements of the Group and the Company for the year ended 31 December 2007 due to the fact that some items of property, plant and equipment experienced significant changes in fair values before the year ended 31 December 2006 and therefore should have been revaluated as of 31 December 2006. Previous auditors stated that there were no practical audit procedures they could apply to be able 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 statements of income and changes in equity for the year ended 31 December 2007.

Qualified Opinion

In our opinion, except for the effect of the adjustments, if any, to the comparative figures in the statements of income and changes in equity for 2007 in the financial statements as of 31 December 2008, as might been determined the previous auditors been able to perform audit procedures as described in section *Basis for Qualified Opinion*, the accompanying financial statements and the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AB Rytų skirstomieji tinklai and the Group as of 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2008 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis	Asta Štreimikienė
Auditor's licence	Auditor's licence
No. 000003	No. 000382
President	

The audit was completed on 6 March 2009.

BALANCE SHEETS

	Notes	As of 31 December			
		GROUP		COMPANY	
ASSETS		2008	2007	2008	2007
Non-current assets					
Property, plant and equipment	5	3,236,996	3,545,585	3,195,633	3,492,881
Intangible assets	6	9,254	10,701	9,244	10,695
Prepayments for property, plant and equipment and intangible assets		6,571	3,565	6,571	3,565
Investments in subsidiaries	1	-	-	36,643	36,643
Deferred income tax asset	21	209	63	-	-
Non-current receivables	7	2,875	3,171	2,875	3,171
		3,255,905	**3,563,085**	**3,250,966**	**3,546,955**
Current assets					
Inventories	8	5,442	8,691	1,286	3,320
Trade and other receivables	9	109,591	89,863	109,713	92,993
Prepayments, deferred charges and unbilled revenue	10	10,507	10,814	10,360	10,726
Derivative financial instruments	11	-	415	-	415
Prepaid current income tax		322	2,583	-	2,443
Cash and cash equivalents	12	23,085	4,127	22,821	3,887
		148,947	116,493	144,180	113,784
Non-current assets classified as held for sale		148	462	148	462
		149,095	**116,955**	**144,328**	**114,246**
Total assets		**3,405,000**	**3,680,040**	**3,395,294**	**3,661,201**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	13	492,405	492,405	492,405	492,405
Revaluation reserve	14	1,462,054	1,923,857	1,452,735	1,906,787
Legal reserve	14	49,516	49,409	49,240	49,240
Other reserves	14	336,169	160,207	333,519	158,521
Retained earnings		82,495	170,092	89,277	174,998
Total equity		**2,422,639**	**2,795,970**	**2,417,176**	**2,781,951**
LIABILITIES					
Non-current liabilities					
Borrowings	20	143,111	95,836	143,111	95,836
Deferred income tax liability	21	407,343	374,124	406,713	372,428
Deferred revenue	15	172,274	110,224	172,274	110,224
Grants, subsidies	16	9,578	7,406	9,578	7,406
Non-current employee benefits	17	6,068	4,268	6,068	4,268
Other non-current liabilities		734	1,145	734	1,145
		739,108	**593,003**	**738,478**	**591,307**
Current liabilities					
Borrowings	20	33,934	53,230	29,489	50,349
Trade and other payables	18	138,834	168,941	141,163	170,545
Advances received and accrued liabilities	19	66,612	68,689	65,115	67,049
Derivative financial instruments	11	287	-	287	-
Current income tax liabilities		3,586	207	3,586	-
		243,253	**291,067**	**239,640**	**287,943**
Total liabilities		**982,361**	**884,070**	**978,118**	**879,250**
Total equity and liabilities		**3,405,000**	**3,680,040**	**3,395,294**	**3,661,201**

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

General Manager	Mr. Rimantas Vaitkus		6 March 2009
Director of Finance department	Mr. Arvydas Zakalskis		6 March 2009

INCOME STATEMENTS

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2008	2007	2008	2007
Revenue		1,193,863	1,057,815	1,190,962	1,060,415
Other income		46	21	2	13
Electricity purchased		(549,394)	(456,236)	(549,394)	(456,236)
Electricity transmission service expenses		(166,071)	(159,411)	(166,071)	(159,411)
Depreciation and amortisation		(286,495)	(181,981)	(279,170)	(175,535)
Employee benefits and related social insurance contributions		(144,898)	(127,381)	(114,440)	(96,581)
Repair and maintenance expense		(43,969)	(51,499)	(63,446)	(74,493)
Transportation expense		(1,518)	(1,165)	(14,193)	(14,052)
Impact of revaluation of property, plant and equipment	5	(47,927)	49,418	(47,893)	49,418
Gain on disposal of property, plant and equipment assets		688	353	306	255
Other expenses	23	(37,018)	(37,135)	(37,869)	(44,204)
Operating (loss) profit		**(82,693)**	**92,799**	**(81,206)**	**89,589**
Income from financing activities	22	1,706	1,107	2,750	1,821
(Expenses) from financing activities	22	(8,171)	(5,670)	(7,993)	(5,501)
(Loss) from financing activities - net		(6,465)	(4,563)	(5,243)	(3,680)
(Loss) profit before income tax		**(89,158)**	**88,236**	**(86,449)**	**85,909**
Income tax	21	6,668	(13,931)	6,368	(13,077)
(Loss) profit for the year		**(82,490)**	**74,305**	**(80,081)**	**72,832**
Attributable to:					
Equity holders of the Company		(82,490)	74,305	(80,081)	72,832
Basic and diluted earnings per share (LTL)	24	(0.17)	0.15	-	-

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

General Manager	Mr. Rimantas Vaitkus		6 March 2009
Director of Finance department	Mr. Arvydas Zakalskis		6 March 2009

STATEMENTS OF CHANGES IN EQUITY

GROUP	Notes	Share capital	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total equity
		Attributable to equity holders of the Company					
Balance at 31 December 2006		**492,405**	**1,166,123**	**49,357**	**61,850**	**123,119**	**1,892,854**
Revaluation of non-current assets, net of deferred tax	5	-	863,279	-	-	-	863,279
Transfer from revaluation reserve to retained earnings		-	(105,545)	-	-	105,545	-
Total income and expense for the year, recognised directly in equity		-	757,734	-	-	105,545	863,279
Profit for the year		-	-	-	-	74,305	74,305
Total income and expense for the year		**-**	**757,734**	**-**	**-**	**179,850**	**937,584**
Transfer to reserves	14	-	-	52	98,357	(98,409)	-
Dividends declared for 2006	25	-	-	-	-	(34,468)	(34,468)
Balance at 31 December 2007		**492,405**	**1,923,857**	**49,409**	**160,207**	**170,092**	**2,795,970**
Revaluation of non-current assets, net of deferred tax	5	-	(183,322)	-	-	-	(183,322)
Change in estimation of deferred tax due to the change in tax rate	21	-	(107,519)	-	-	-	(107,519)
Transfer from revaluation reserve to retained earnings		-	(170,962)	-	-	170,962	-
Total income and expense for the year recognised directly in equity			(461,803)			170,962	(290,841)
(Loss) for the year		-	-	-	-	(82,490)	(82,490)
Total income and expense for the year		**-**	**(461,803)**	**-**	**-**	**88,472**	**(373,331)**
Transfer to reserves	14	-	-	107	175,962	(176,069)	-
Balance at 31 December 2008		**492,405**	**1,462,054**	**49,516**	**336,169**	**82,495**	**2,422,639**

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

STATEMENTS OF CHANGES IN EQUITY (cont'd)

COMPANY	Notes	Share Capital	Revaluation reserve	Legal reserve	Other reserves	Retained earnings	Total equity
Balance at 31 December 2006		**492,405**	**1,158,657**	**49,240**	**60,575**	**129,948**	**1,890,825**
Revaluation of non-current assets, net of deferred tax	5	-	852,762	-	-	-	852,762
Transfer from revaluation reserve to retained earnings		-	(104,632)	-	-	104,632	-
Total income and expense for the year, recognised directly in equity		-	748,130	-	-	104,632	852,762
Profit for the year		-	-	-	-	72,832	72,832
Total income and expense for the year		**-**	**748,130**	**-**	**-**	**177,464**	**925,594**
Transfer to reserves	14	-	-	-	97,946	(97,946)	-
Dividends declared for 2006	25	-	-	-	-	(34,468)	(34,468)
Balance at 31 December 2007		**492,405**	**1,906,787**	**49,240**	**158,521**	**174,998**	**2,781,951**
Revaluation of non-current assets, net of deferred tax	5	-	(177,656)	-	-	-	(177,656)
Change in estimation of deferred tax due to the change in tax rate	21	-	(107,038)	-	-	-	(107,038)
Transfer from revaluation reserve to retained earnings		-	(169,358)	-	-	169,358	-
Total income and expense for the year recognised directly in equity		-	(454,052)	-	-	169,358	(284,694)
(Loss) for the year		-	-	-	-	(80,081)	(80,081)
Total income and expense for the year		**-**	**(454,052)**	**-**	**-**	**89,277**	**(364,775)**
Transfer to reserves	14	-	-	-	174,998	(174,998)	-
Balance at 31 December 2008		**492,405**	**1,452,735**	**49,240**	**333,519**	**89,277**	**2,417,176**

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

General Manager	Mr. Rimantas Vaitkus		6 March 2009
Director of Finance department	Mr. Arvydas Zakalskis		6 March 2009

CASH FLOW STATEMENT

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2008	2007	2008	2007
Cash flows from operating activities					
(Loss) profit for the year		(82,490)	74,305	(80,081)	72,832
Adjustments for:					
Depreciation and amortization		287,498	182,756	279,697	175,715
Property, plant and equipment (revaluation) impairment	5	47,927	(49,498)	47,893	(49,498)
Income tax (income) expense		(6,668)	13,931	(6,368)	13,077
Deferred income amortisation		(6,197)	(3,800)	(6,197)	(3,800)
Grant amortisation		(527)	(182)	(527)	(182)
(Profit)/loss from disposal and write – off of property plant and equipment (PPE)	5, 6	6,190	8,065	6,190	8,149
Dividends		-	-	(858)	(422)
Financing (income)		(1,706)	(1,107)	(1,892)	(1,399)
Financing cost		7,469	5,829	7,291	5,660
Changes in working capital:					
Trade and other receivables (increase)		(19,432)	(11,129)	(16,080)	(12,051)
Inventories, prepayments and other assets decrease (increase)		3,960	(3,294)	2,714	(1,449)
Payables and advances receęived increase		51,531	100,863	51,145	100,710
Income tax (paid)		(17,440)	(28,041)	(17,050)	(27,659)
Net cash generated from operating activities		**270,115**	**288,698**	**265,877**	**279,683**
Cash flows from investing activities					
(Acquisitions) of property, plant and equipment and intangible assets		(274,747)	(256,126)	(271,183)	(248,695)
Proceeds from sale of property, plant and equipment		708	1,267	700	775
Loans repayments received from subsidiaries		-	-	1,000	1,000
Loan repayments received		656	560	656	560
Dividends received		-	-	858	422
Interest received		1,706	1,107	1,892	1,399
Net cash used in investing activities		**(271,677)**	**(253,192)**	**(266,077)**	**(244,539)**
Cash flows from financing activities					
Proceeds from borrowings		128,961	44,886	128,961	44,886
(Repayments) of borrowings		(82,413)	(29,413)	(82,413)	(29,413)
Dividends (paid) to the Company's shareholders	25	(201)	(34,328)	(201)	(34,328)
Interest (paid)		(7,258)	(5,476)	(7,081)	(5,307)
Net cash used in financing activities		**39,089**	**(24,331)**	**39,266**	**(24,162)**
Increase in cash and cash equivalents		**37,527**	**11,175**	**39,066**	**10,982**
Cash and cash equivalents at beginning of year	12	**(30,048)**	**(41,223)**	**(27,406)**	**(38,388)**
Cash and cash equivalents at end of year	12	**7,479**	**(30,048)**	**11,660**	**(27,406)**

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

General Manager	Mr. Rimantas Vaitkus		6 March 2009
Director of Finance department	Mr. Arvydas Zakalskis		6 March 2009

Notes to the financial statements

1. General information

Rytų skirstomieji tinklai AB (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania. The Company was registered at the Register of Legal Entities on 31 December 2001. The shares of the Company have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange since 2 May 2007. The address of the Company's registered office is:

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

The core business of the Company includes electricity power supply and distribution. The Company, which owns a medium and low voltage distribution network, is the only power distribution service provider to users in Eastern Lithuania.

As of 31 December 2008 and 2007 the shareholders of the Company were:

	As of 31 December 2008		As of 31 December 2007	
	Number of shares held	Percentage	Number of shares held	Percentage
LEO LT, AB	351,316,161	71.35 %	-	-
Government of the Republic of Lithuania	-	-	351,316,161	71.35 %
E.ON Ruhrgas International AG (Germany)	99,845,392	20.28 %	99,845,392	20.28 %
Other shareholders	41,243,100	8.37 %	41,243,100	8.37 %
Total	492,404,653	100 %	492,404,653	100 %

All the shares of the Company are ordinary shares with the par value of LTL 1 each and were fully paid as of 31 December 2008 and 2007. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no restrictions of share rights or special control rights for the shareholders set in the Articles of Association of the Company. No shares of the Company are held by itself or its subsidiaries.

On 28 June 2007 the Parliament of the Republic of Lithuania passed the Law on the Nuclear Power Plant, which laid down the procedure of implementation of the new nuclear power plant project by establishing a national investor. On 14 February 2008, an amendment to the Law on the Nuclear Power Plant was passed, which envisioned the establishment of a national investor on the basis of a new parent company by transferring the shares owned by the Government in AB Rytų skirstomieji tinklai to the new parent company. On 27 May 2008, the Shareholder Agreement of the national investor LEO LT, AB was signed. Immediately after that, an extraordinary general meeting of shareholders of LEO LT, AB was convened where it was decided to increase the share capital of LEO LT, AB by asset contributions made by Government of the Republic of Lithuania and UAB NDX Energija (private investor), in particular by contributing the shares of AB Rytų skirstomieji tinklai, Lietuvos energija AB and VST AB. The main shareholder of the Company is LEO LT, AB, owning 71.35 % of the Company‘s shares as of 31 December 2008. The remaining 28.65 % of the Company's shares are held by other shareholders. As of 31 December 2008 the ultimate parent of the Company is Government of the Republic of Lithuania.

1. General information (cont'd)

The activities of the Company 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 caps on prices of licensed activity services. In 2008 the following caps on public power tariffs were set:

- for users that receive power from networks with voltage below 110 kV but not lower than 6kV, 24.49 ct/kWh (20.08 ct/kWh in 2007);
- for users that receive power from 0.4 kV voltage networks, 35.59 ct/kWh (30.14 ct/kWh in 2007).

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	Cost of invest-ment	Year of establish-ment	Group's share (%) as of 31 December 2008	Group's share (%) as of 31 December 2007	Profile
UAB Rytra	Lithuania	22,998	2004	100 %	100 %	Transportation services
UAB Elektros Tinklo Paslaugos	Lithuania	11,657	2004	100 %	100 %	Power network and related equipment repair and maintenance services
UAB Tetas	Lithuania	1,988	2005	100 %	100 %	Power network design, construction, repair, maintenance and customer connection to the grid services
		36,643				

The Company's management approved these financial statements on 6 March 2009. The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of a new set of financial statements.

2. Summary of significant accounting policies

Presented below are the significant accounting policies which were the basis for the preparation of these financial statements. These policies are applied consistently to all the annual periods presented, unless specified otherwise.

2.1. Basis of preparation

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

These financial statements have been prepared on the basis of historical cost, modified due to revaluation of property, plant and equipment and fair value measurement for derivative financial instruments.

In the preparation of financial statements according to IFRS, certain significant accounting estimates must be observed. Management also has to take decisions related to the accounting standards applied by the Group and the Company. The areas where signifficant assumptions and accounting estimates are made are disclosed in Note 3.

Reclassification of comparative amounts

In the financial statements for the year ended 31 December 2008 the Group and the Company reclassified certain comparative amounts. For explanations on reclassifications see Note 29.

2. Summary of significant accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions.*

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – *Reclassification of Financial Assets*
Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group and the Company did not have financial instruments caught by these amendments.

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*
The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group and the Company has not issued instruments caught by this interpretation.

Standards issued but not yet effective

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

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company does not have share-based payments.

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

2. Summary of significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

IFRS 8 *Operating Segments* (effective for financial years beginning on or after 1 January 2009).

The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 *Segment Reporting*. The Group and the Company is still evaluating what operating segments will be determined in accordance with IFRS 8.

Amendment to IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group and the Company is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009).

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group and the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company has not issued such instruments.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company has not entered into any such hedges.

IFRIC 12 *Service Concession Arrangements* (effective once adopted by the EU).

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group and Company.

IFRIC 13 *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008).

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group and Company does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group and the Company.

2. Summary of significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2009).

This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group and the company does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group and the Company.

IFRIC 15 *Agreement for the Construction of Real Estate* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group and the Company does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for financial years beginning on or after 1 October 2008 once adopted by the EU).

The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the consolidated financial statements because the Group and the Company does not have hedges of net investments.

IFRIC 17 *Distributions of Non-cash Assets to Owners (*effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group and the Company does not distribute non-cash assets to owners.

IFRIC 18 *Transfers of Assets from Customers* (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU).

The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The Group and the Company has not yet evaluated the potential impact of IFRIC 18 on the financial statements.

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group and the Company anticipates that these amendments to standards will have no material effect on the financial statements.

- *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements.* Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period*. Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".

2 Summary of significant accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- *IAS 18 Revenue.* Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- *IAS 19 Employee Benefits.* Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other non-current' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.* Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements.* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- *IAS 29 Financial Reporting in Hyperinflationary Economies.* Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- *IAS 34 Interim Financial Reporting.* Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 Impairment of Assets.* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 *Intangible Assets*. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- *IAS 39 Financial Instruments: Recognition and Measurement.* Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- *IAS 40 Investment Property.* Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- *IAS 41 Agriculture.* Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

The Group and the Company expects that the adoption of the pronouncements listed above will have no significant impact on the Group's and the Company's financial statements in the period of initial application, except for IAS 23 Borrowing costs, IAS 1 Presentation of Financial Statements – Revised, IFRIC 18 Transfers of Assets from Customers and IFRS 8 Operating Segments.

2 Summary of significant accounting policies (cont'd)

2.2. Consolidated financial statements

The consolidated financial statements of the Group include AB Rytų skirstomieji tinklai and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year, using consistent accounting policies.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated.

Subsidiaries were established by the Company.

2.3. Information on segments

A business segment is a group of assets or operations engaged in product making or service provision where risks and returns are different from those of other business segments of a company. In a geographical segment, product making or service provision takes place in a certain geographical and economic environment where risks and returns are different from those of segments operating in another geographical and economic environment.

The Group's and the Company's operations are vertically integrated, therefore it operates in one geographical and business segment. Due to this reason no segment information is presented in these financial statements.

2.4. Foreign currency translation

(a) Functional and presentation currency

The items shown in the financial statements of each company of the Group are valued by the currency of the original economic environment wherein a specific company operates (hereinafter the functional currency). The consolidated financial statements are presented in the Lithuanian litas (LTL), which is the Group's and the Company's functional and presentation currency.

Since 2 February 2002, the litas has been tied to the euro at an exchange rate of LTL 3.4528 Lt to EUR 1.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at exchange rates effective as of the date of transaction. Gain and loss resulting from settlement related to these transactions, and translation of cash balances of assets and liabilities denominated in foreign currencies, according to the exchange rates effective at the year end, are accounted for in the profit (loss) statement.

2.5. Property, plant and equipment assets

Property, plant and equipment is carried at revalued amounts, which are their fair values as of the date of revaluation, less accumulated depreciation and impairment losses. Fair values are determined on the basis of periodic valuations by independent appraisers. Any accumulated depreciation is eliminated on the date of revaluation by way of deduction from the historical cost and recalculation of the obtained value as the revalued amount of assets.

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 recognised in profit and loss to the extend that it reverses a revaluation decrease of the same asset previously recognised 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 taking into account the effect of deferred tax. Additionally, accumulated depreciation as of revaluation date is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the assets.

The whole of the revaluation surplus balance is transferred from revaluation reserve to retained earnings when the asset is retired or disposed.

2 Summary of significant accounting policies (cont'd)

2.5 Property, plant and equipment assets (cont'd)

Depreciation of property, plant and equipment is calculated using the straight-line method of the carrying value of each asset over its estimated useful lives as follows:

Buildings	8 - 50 years
Including:	
35 - 110 kV transformer substation buildings	35 years
10 kV distribution point buildings	35 years
10/0.4 kV transformer buildings	35 years
Connection and control system buildings	25 years
Structures and electricity network	5 - 50 years
Including:	
35 - 110 kV transformer substations (except buildings)	25 - 40 years
10 kV distribution points (except buildings)	30 years
10/0.4 kV power transformers	30 years
35 kV power lines	40 years
0.4 - 10 kV electricity network	30 - 40 years
10/0.4 kV transformers (except buildings)	30 years
Connection and control systems (except buildings)	10 - 40 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.

Property, plant and equipment obtained at no consideration is recognised at fair value in corresponding captions of property, plant and equipment and deferred revenue. Property, plant and equipment obtained at no consideration is depreciated by using straight-line method over the estimated useful life of these assets. The amounts accounted for in the deferred revenue caption are recognised as revenue in the income statement over the period of useful life of this property, plant and equipment and the depreciation expenses of the related property, plant and equipment in the income statement are reduced by this amount.

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.

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

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

Interest costs on borrowings to finance the construction of property, plant and equipment are not capitalised and are recognised in the income statement when incurred.

2 Summary of significant accounting policies (cont'd)

2.6. Intangible assets

(a) Computer software

Computer software licenses acquired are capitalised on the basis of costs associated with the acquisition of specific software and its preparation for use. These costs are amortised over their estimated validity term (3 years).

(b) Other intangible assets

Intangible assets expected to provide economic benefit to the Group and the Company in the future are carried at the historical cost less accumulated amortisation and impairment. Amortisation is calculated by using the straight-line method over the estimated 3-year period of economic benefit.

2.7. Impairment of non-financial assets

Amortised and depreciated assets are reviewed with a view of determining their impairment, if certain events or changes in circumstances indicate that the carrying amount of assets may be unrecoverable. The amount by which the carrying amount of assets exceeds their recoverable value is recognised as the impairment loss. The recoverable value is the fair value of an asset less costs to sell, or the value in use, depending on whichever is higher. When estimating impairment, assets are classified into the smallest groups with respect to which separate cash flows (units generating cash flows) can be determined. Non-financial assets are reviewed for the potential recovery of impairment on the date of preparation of each financial statement.

2.8. Financial assets

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

Available-for-sale financial assets

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

2 Summary of significant accounting policies (cont'd)

2.9. Derivative financial instruments

Derivative financial instruments initially are recognised at fair value on the date of signing of a derivative agreement, and are subsequently reassessed at their fair value. The Group and the Company do not use the accounting of hedge transactions, hence derivatives are carried at fair value in the profit (loss) statement. Changes in the fair value of derivatives are recognised without delay in the profit (loss) statement under the financing expenses caption in the income statement.

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), transportation, handling and other costs directly attributable to the acquisition of inventories. The cost 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 estimated 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 within the original time limits. The debtor's significant financial difficulties, the likelihood of the debtor's bankruptcy or financial reorganisation, as well as failure to make payments or delayed payments (more than 2 months overdue) are all signs of impairment of trade receivables. The impairment amount is the difference between the carrying amount of assets and the present value of estimated future cash flows discounted by using the effective interest rate. The carrying amount of assets is reduced till its recoverable amount and the amount of the loss is recognised in the profit (loss) statement. Where an amount of trade receivables is unrecoverable, it is written down through the reduction of the impairment amount and by the amounts of trade receivables. Amounts previously written down but subsequently recovered are carried as income in the profit (loss) statement.

2.13. Property, plant and equipment held for sale

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

2.14. Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturity up to 3 months and overdrafts.

2.15. Trade payables

Trade payables are accrued when the other party has performed its obligations under the contract, and are initially recognised at fair value and subsequently estimated at amortised cost using the effective interest rate method.

2.16. 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 profit (loss) statement over the period of the borrowings using the effective interest rate method.

Borrowings are attributed to current liabilities, unless the Group and the Company have the unconditional right to defer the fulfilment of a liability for at least 12 months after the date of preparation of the balance sheet.

Borrowing costs are recognised as costs for the period within which they were incurred.

2 Summary of significant accounting policies (cont'd)

2.17. Deferred income tax

Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Income tax related to items recognised directly in equity is recognised in equity.

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

The standard income tax rate in Lithuania was 15 % in 2008. In 2007 along with the 15 % income tax companies had to pay an additional 3 % social tax calculated based on the income tax accounting principles. After the amendments of Income Tax Law of Republic of Lithuania had come into force, 20 % income tax rate has been established for indefinite period starting 1 January 2009.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses incurred except when the company does not continue its activities due to reasons which do not depend on company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their amounts used for income tax purposes. Deferred tax liabilities are recognised for all temporary differences that will subsequently increase taxable profit, and deferred tax assets are recognised to the extent they are expected to reduce taxable profit in the future. Such assets and liabilities are not recognised if temporary differences are related to goodwill (or negative goodwill), or if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

The deferred income tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to realise all or part of the deferred income tax asset.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

2.18. Employee benefits

Social security contributions

The Group and the Company pays social security contributions to the state Social Security Fund (hereinafter the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits related to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group and the Company recognises termination benefits when it is firmly committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Non-current benefits are recognised at present value discounted using market rate.

Gains and losses are recognised immediately in income statement of the Group and the Company. All previous labour costs are recognised immediately.

2. Summary of significant accounting policies (cont'd)

2.18 Employee benefits (cont'd)

Employee benefit liability

Pension liability represents calculated amounts to be paid according to Lithuanian legislation and Collective agreement. Each employee is entitled to from 2 - 6 months salary payment when leaves the job at or after the start of pension period. The defined benefit obligation as of balance sheet date as well as the costs of providing such benefits are based on actuarial calculations applying the projected credit unit method. The discount rate applied reflects the rates set for governmental bonds with a duration similar to the expected benefit payments.

2.19. Grants, subsidies

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group or the Company will comply with all specified conditions. Government grants relating to the purchase of property, plant and equipment is recognised as non-current liabilities on the balance sheet and are credited to the profit (loss) statement on a straight-line basis over the estimated useful lives of the related assets.

Government grants relating to costs are deferred and recognised in the profit (loss) statement over a period necessary to agree them with costs which the grants are intended to compensate.

2.20. Operating lease: the Group and the Company are lessees

A lease of assets where the lessor substantially has all the risks and rewards incidental to ownership is classified as an operating lease. Lease payments are recognised as expenses in the profit (loss) statement proportionately over the whole lease term.

2.21. Provisions

Provisions are carried at the present value of costs likely to be required for meeting the obligation, by using a pre-tax rate that reflects the current market valuations of the time value of money and risks common to a specific obligation. An unwinding of the discount during a period is recognised as interest cost.

Provisions are recognised if: the Group or the Company has a current legal or constructive obligation with respect to past events, it is more likely than unlikely that fulfilment of this obligation will require the use of resources, and the amount of liabilities can be reliably determined. Provisions are not recognised as future operating losses.

2.22. Revenue recognition

Revenue from sales comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of business of the Group and the Company, net of the value added tax, rebates and discounts, and the Group's sales after an additional elimination of sales within the Group.

Revenue from sales is recognised when the revenue amount can be reliably determined, the Group and the Company are likely to receive future economic benefit and certain criteria established for each activity of the Group and the Company, as described below, have been met.

(a) Revenue from sales of electricity

Revenue on electricity sales to residential sector customers are recognised when electricity is provided. At the end of each accounting period an unbilled revenue is made to record amounts of electricity supplied but not yet paid. Unbilled revenue estimated as 1/3 of payments received in January of the next reporting 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

Contributions received from the new customers and producers for connection and reconstruction or transfer of the network items or equipment, according to the request of the customers, producers and others, initially are recognised as deferred revenue and subsequently recognised as revenue over the same period during which the related costs of installation are charged. The related costs of installation, which include cost of property, plant and equipment and other costs are capitalised and depreciated over the estimated useful lives of the capitalised assets.

(c) Revenue from sales of services

Revenue from the sale of services, including revenue received for the transfer or reconstruction of electricity equipment based on a customer request, are recognised in the reporting period in which the services were rendered, taking into account the level of fulfilment of a specific transaction estimated according to services actually rendered, as a percentage of all reportable services.

2. Summary of significant accounting policies (cont'd)

2.22 Revenue recognition (cont'd)

(d) Revenue from sales of goods

Revenue from the sale of goods are recognised when all risks associated with the loss or damage to the goods, as well as all additional costs due to events occurring after the time the goods have been delivered to the carrier or to a specified destination, are transferred from the Group or the Company to the customer in accordance with the standardised terms and conditions of sale (INCOTERMS) agreed with the customer, 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, which includes the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(f) Dividend income

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

2.23. Dividend distribution

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

2.24. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shares changes without causing a change in the economical resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented.

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.

2.26. Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities in business combinations. They are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2.27. Subsequent events

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

2.28. Related parties

Related parties are defined as shareholders, employees, members of the Board, their close relatives and companies that directly or indirectly (through the intermediary) control the Group and the Company or are controlled by, or are under common control with, the Group and the Company, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

2.29. Offsetting figures

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

3. 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.

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to the following areas.

(a) Revaluation of property, plant and equipment

Property, plant and equipment of the Group and the Company are stated at a revaluated amount less accumulated depreciation and impairment. The revalued amount is a fair value established using revaluation results provided by independent valuers UAB korporacija Matininkai. The last revaluation was performed as in 2008 and revaluation results were recorded as of 31 December 2008 as well (Note 5).

(b) Deferral of customer connection fees

The Group and the Company defer revenue from customer connection services and recognise it as revenue within a 31-year period, i.e. the average useful life of electrical installations built by the Group or the Company for the purposes of connecting new customers. The Company has an eletricity distribution monopoly in Eastern Lithuania. Therefore, management believes that the period of customer relations is close to an open-ended period. As a result, the average useful life of installations built by the Group or the Company for the purposes of customer connection is used as the best available estimate of the period in which customer connection charges are recognised as revenue.

(c) Overdeclaration of income

The Company increased electricity prices from the beginning of the year 2009. Due to this reason some of the residents declared more electricity than actually consumed in order to pay at lower prices. The Company calculated the over declared amount based on the historical electricity consumption pattern and booked the amount as advances received.

(d) Impairment loss of accounts receivable

The impairment loss of accounts receivable was determined based on management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. These accounting estimates require 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. Carrying amounts of receivables are disclosed in Notes 7 and 9.

(e) 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. Otherwise, if no significant technological changes are introduced, equipment can be used for a longer period than the one currently determined.

4. Changes in accounting policy and corrections of errors

The following change in accounting policy and corrections of errors were made while preparing the financial statements for the year ended 31 December 2008 and the Group and the Company accounted for them retrospectively as required by IAS 8:

No.	Applicable to	Description
1.	Group's and Company's financial statements	Change in accounting policy related to recognition of deferred income from new customer connections and capitalization of related connection assets which in 2007 was recognised directly in Group's and the Company's income statement
2.	Group's Financial statements	Accounting for property plant and equipment of the subsidiaries of the Company at fair value (revaluated value) as of 31 December 2007.

Change in accounting policy

To better reflect the substance of the transactions of the revenue and assets from new connections the Group and the Company have changed their accounting policy for recognition of revenue from customer connection to the distribution network when payments are based on the tariffs approved by the National Control Commission for Prices and Energy. Before 2008 the Group and the Company charged this revenue to the income statement if the cost of these services is below LTL 2,000. From 2008 the Group and the Company records revenue from customer connections as deferred revenue and recognises as revenue in a period of 31 year.

Correction of error

The Group retrospectively accounted for revaluation impact of the subsidiaries' property, plant and equipment as of 31 December 2007 as while preparing the Consolidated financial statements for 2007 there were indications that the fair value of these assets was significantly different from their net book value.

In the table below it is presented the summarised information of the above mentioned corrections applicable to the Group:

Group	**As of 31 December 2007 (as stated earlier)**	**Change in accounting policy**	**Correction of error**	**As of 31 December 2007**
BALANCE SHEET				
Property, plant and equipment	3,528,584	4,629	12,372	3,545,585
Other assets	134,455	-	-	134,455
Total assets	**3,663,039**	**4,629**	**12,372**	**3,680,040**
Revaluation reserve	1,913,341	-	10,516	1,923,857
Other equity captions	872,113	-	-	872,113
Deferred income tax liability	372,268	-	1,856	374,124
Deferred revenue	105,743	4,481	-	110,224
Advances received and accrued liabilities	68,541	148	-	68,689
Other non-current and current liabilities	331,033	-	-	331,033
Total equity and liabilities	**3,663,039**	**4,629**	**12,372**	**3,680,040**
INCOME STATEMENT				
Revenue	1,062,444	(4,629)	-	1,057,815
Repair and maintenance expense	(56,128)	4,629	-	(51,499)
Other captions of income statement	(932,011)	-	-	(932,011)
Profit for the year	74,305	-	-	74,305

4. Changes in accounting policy and corrections of errors (cont'd)

In the table below it is presented the summarised table of the above mentioned corrections applicable to the Company:

Company	**As of 31 December 2007 (as stated earlier)**	**Change in accounting policy**	**As of 31 December 2007**
BALANCE SHEET			
Property, plant and equipment	3,488,252	4,629	3,492,881
Other assets	168,320	-	168,320
Total assets	**3,656,572**	**4,629**	**3,661,201**
Total equity	2,781,951	-	2,781,951
Deferred revenue	105,743	4,481	110,224
Advances received and accrued liabilities	66,901	148	67,049
Other non-current and current liabilities	701,977	-	701,977
Total equity and liabilities	**3,656,572**	**4,629**	**3,661,201**
INCOME STATEMENT			
Revenue	1,065,044	(4,629)	1,060,415
Repair and maintenance expense	(79,122)	4,629	(74,493)
Other captions of income statement	(913,090)	-	(913,090)
Profit for the year	72,832	-	72,832

5. Property, plant and equipment

Group	Land	Buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construction in progress	Total
As of 31 December 2006							
Cost or revalued cost	-	226,679	3,107,943	25,816	96,626	56,215	3,513,279
Accumulated depreciation	-	(75,414)	(981,998)	(9,216)	(45,770)	-	(1,112,398)
Accumulated impairment losses	-	(81)	(280)	-	(113)	(761)	(1,235)
Net book value	**-**	**151,184**	**2,125,665**	**16,600**	**50,743**	**55,454**	**2,399,646**
Net book value as of 31 December 2006	**-**	**151,184**	**2,125,665**	**16,600**	**50,743**	**55,454**	**2,399,646**
Additions	-	678	9,123	6,279	6,915	247,535	270,530
Revaluation	-	72,754	961,220	17	31,048	-	1,065,039
Disposals	-	(300)	(19)	(298)	(201)	-	(818)
Write-offs	-	(331)	(7,697)	(7)	(383)	-	(8,418)
Impairment losses	-	(28)	7	(5)	(119)	-	(145)
Reversals of impairment	-	-	-	-	-	225	225
Reclassifications between groups	-	17,559	196,656	-	18,297	(232,512)	-
Depreciation	-	(6,526)	(157,711)	(4,818)	(11,419)	-	(180,474)
Net book value as of 31 December 2007	**-**	**234,990**	**3,127,244**	**17,768**	**94,881**	**70,702**	**3,545,585**
As of 31 December 2007							
Cost or revalued cost	-	234,990	3,127,244	17,768	94,881	70,702	3,545,585
Accumulated deprecation	-	-	-	-	-	-	-
Net book value	**-**	**234,990**	**3,127,244**	**17,768**	**94,881**	**70,702**	**3,545,585**
Net book value as of 31 December 2007	**-**	**234,990**	**3,127,244**	**17,768**	**94,881**	**70,702**	**3,545,585**
Additions	40	122	6,200	3,833	1,329	245,374	256,898
Revaluation	-	(49,884)	(222,431)	-	(4,764)	-	(277,079)
Disposals		(222)	(181)	(6)	(6)	-	(415)
Write-offs	-	(88)	(5,910)	-	(34)	(449)	(6,481)
Reversals of impairment	-	102	374	-	28	391	895
Reclassifications between groups	-	13,053	214,592	-	19,121	(246,385)	381
Depreciation	-	(16,928)	(236,841)	(4,220)	(24,799)	-	(282,788)
Net book value as of 31 December 2008	**40**	**181,145**	**2,883,047**	**17,375**	**85,756**	**69,633**	**3,236,996**
As of 31 December 2008							
Cost or revalued cost	40	181,145	2,883,047	21,595	85,756	69,633	3,241,216
Accumulated depreciation	-	-	-	(4,220)	-	-	(4,220)
Net book value	**40**	**181,145**	**2,883,047**	**17,375**	**85,756**	**69,633**	**3,236,996**

6. Property, plant and equipment (cont'd)

Company	Land	Buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construction in progress	Total
As of 31 December 2006							
Cost or revalued cost	-	209,234	3,102,124	241	93,831	56,215	3,461,645
Accumulated deprecation	-	(74,618)	(981,082)	(76)	(45,248)	-	(1,101,024)
Accumulated impairment losses	-	(81)	(281)	-	(113)	(760)	(1,235)
Net book value	**-**	**134,535**	**2,120,761**	**165**	**48,470**	**55,455**	**2,359,386**
Net book value as of 31 December 2006	**-**	**134,535**	**2,120,761**	**165**	**48,470**	**55,455**	**2,359,386**
Additions	-	406	8,704	-	6,565	247,432	263,107
Revaluation	-	60,933	960,885	17	30,832	-	1,052,667
Disposals	-	(300)	(19)	-	(201)	-	(520)
Write-offs	-	(331)	(7,692)	-	(380)	-	(8,403)
Impairment losses	-	-	(285)	-	(51)	-	(336)
Reversals of impairment	-	194	-	(5)	-	225	414
Reclassifications between groups	-	17,338	196,947	-	18,229	(232,514)	-
Depreciation	-	(5,734)	(157,060)	(37)	(10,603)	-	(173,434)
Net book value as of 31 December 2007	**-**	**207,041**	**3,122,241**	**140**	**92,861**	**70,598**	**3,492,881**
As of 31 December 2007							
Cost or revalued cost	-	207,041	3,122,241	140	92,861	70,598	3,492,881
Accumulated depreciation	-	-	-	-	-	-	-
Net book value	**-**	**207,041**	**3,122,241**	**140**	**92,861**	**70,598**	**3,492,881**
Net book value as of 31 December 2007	**-**	**207,041**	**3,122,241**	**140**	**92,861**	**70,598**	**3,492,881**
Additions	40	78	6,681	-	1,191	245,329	253,319
Revaluation	-	(42,494)	(222,921)	-	(4,548)	-	(269,963)
Disposals	-	(222)	(181)	-	(7)	-	(410)
Write-offs	-	(88)	(5,910)	-	(34)	(449)	(6,481)
Reversals of impairment	-	102	375	-	28	391	896
Reclassifications between groups	-	13,144	214,501	-	19,018	(246,282)	381
Depreciation	-	(15,534)	(235,370)	(54)	(24,032)	-	(274,990)
Net book value as of 31 December 2008	**40**	**162,027**	**2,879,416**	**86**	**84,477**	**69,587**	**3,195,633**
As of 31 December 2008							
Cost or revalued cost	40	162,027	2,879,416	140	84,477	69,587	3,195,687
Accumulated depreciation	-	-	-	(54)	-	-	(54)
Net book value	**40**	**162,027**	**2,879,416**	**86**	**84,477**	**69,587**	**3,195,633**

Write-offs 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 2008. Revaluation was performed by independent valuers. Valuations of buildings were made on the basis of comparable prices, structures and machinery and other property, plant and equipment based on depreciated replacement cost method. As of 31 December 2008 due to revaluation the value of assets of the Group and the Company decreased by LTL 277,079 thousand and LTL 269,963 thousand, respectively (as of 31 December 2007 – increased by LTL 1,065,039 thousand and LTL 1,052,667 thousand, respectively).

Revaluation surplus of the Group and the Company amounting to LTL 4,082 thousand emerged due to LTL 3,448 thousand increase in revaluation reserve and coverage of impairment for previous assets revaluation in the amount of LTL 634 thousand.

6. Property, plant and equipment (cont'd)

The revaluation decrease of the Group and the Company amounting to LTL 281,161 thousand and LTL 274,045 thousand, respectively comprise of LTL 232,601 thousand and LTL 225,519 thousand decrease of revaluation reserve of previous revaluations and LTL 48,560 thousand and LTL 48,526 thousand decrease in assets' value, which was accounted for in the income statement, respectively.

The revaluation decrease, net of applicable deferred income tax effect is accounted for in the revaluation reserve in the Group's and the Company's equity and amounts to LTL 183,322 thousand and LTL 177,656 thousand respectively, while impairment is accounted for in the income statement.

The increases and decreases in carrying amounts of the Group arising from the revaluation of property, plant and equipment are as follows:

	Land	Buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construct-ion in progress	Total
Increase in carrying amount	-	1,675	2,308	-	99	-	4,082
Decrease in carrying amount	-	(51,559)	(224,739)	-	(4,863)	-	(281,161)
	-	(49,884)	(222,431)	-	(4,764)	-	(277,079)

The increases and decreases in carrying amounts of the Company arising from the revaluation of property, plant and equipment are as follows:

	Land	Buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construct-ion in progress	Total
Increase in carrying amount	-	1,675	2,308	-	99	-	4,082
Decrease in carrying amount	-	(44,169)	(225,229)	-	(4,647)	-	(274,045)
	-	(42,494)	(222,921)	-	(4,548)	-	(269,963)

If property, plant and equipment would not be revaluated, carrying values of property, plant and equipment of the Group and the Company as of 31 December 2008 and 2007 would be as follow:

Group	Land	Buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construct-ion in progress	Total
As of 31 December 2008	40	157,856	1,084,978	17,364	67,229	69,633	1,397,100
As of 31 December 2007	-	156,342	920,715	17,751	59,859	70,702	1,225,369

Company	Land	Buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construct-ion in progress	Total
As of 31 December 2008	40	142,595	1,081,465	75	65,940	69,587	1,359,702
As of 31 December 2007	-	140,305	915,956	123	58,053	70,599	1,185,036

Part of property, plant and equipment of the Group and the Company with the acquisition cost (revalued) of LTL 21,555 thousand and LTL 19,226 thousand, respectively, was fully depreciated as of 31 December 2008 (LTL 42,051 thousand and LTL 39,784 thousand as of 31 December 2007) but was still in active use. The fully depreciated assets mainly represent structures, machinery and other property, plant and equipment.

As at 31 December 2008, capital expenditures of the Group and the Company contracted for at the balance sheet date but not recognised in the financial statements amount to LTL 40,295 thousand.

6. Intangible assets

Group	Software	Other intangible assets	Total
As of 31 December 2006			
Cost	9,346	449	9,795
Accumulated amortisation	(6,603)	(313)	(6,916)
Net book value	**2,743**	**136**	**2,879**
Net book value as of 31 December 2006	**2,743**	**136**	**2,879**
Additions	10,103	-	10,103
Amortisation	(2,202)	(79)	(2,281)
Net book value as of 31 December 2007	**10,644**	**57**	**10,701**
As of 31 December 2007			
Cost	18,678	449	19,127
Accumulated amortisation	(8,034)	(392)	(8,426)
Net book value	**10,644**	**57**	**10,701**
Net book value as of 31 December 2007	**10,644**	**57**	**10,701**
Additions	3,207	56	3,263
Amortisation	(4,647)	(63)	(4,710)
Net book value as of 31 December 2008	**9,204**	**50**	**9,254**
As of 31 December 2008			
Cost	21,875	370	22,245
Accumulated amortisation	(12,671)	(320)	(12,991)
Net book value	**9,204**	**50**	**9,254**

Company	Software	Other intangible assets	Total
As of 31 December 2006			
Cost	9,346	449	9,795
Accumulated amortisation	(6,603)	(313)	(6,916)
Net book value	**2,743**	**136**	**2,879**
Net book value as of 31 December 2006	**2,743**	**136**	**2,879**
Additions	10,097	-	10,097
Amortisation	(2,201)	(80)	(2,281)
Net book value as of 31 December 2007	**10,639**	**56**	**10,695**
As of 31 December 2007			
Cost	18,671	448	19,119
Accumulated amortisation	(8,032)	(392)	(8,424)
Net book value	**10,639**	**56**	**10,695**
Net book value as of 31 December 2007	**10,639**	**56**	**10,695**
Additions	3,200	56	3,256
Amortisation	(4,645)	(62)	(4,707)
Net book value as of 31 December 2008	**9,194**	**50**	**9,244**
As of 31 December 2008			
Cost	21,861	370	22,231
Accumulated amortisation	(12,667)	(320)	(12,987)
Net book value	**9,194**	**50**	**9,244**

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

Part of the property, plant and equipment of the Group and the Company with the acquisition value of LTL 6,010 thousand was fully amortised as of 31 December 2008 (LTL 4,613 thousand - as of 31 December 2007) but was still in use.

7. Non-current receivables

Non-current receivables consist of mortgage loans which are issued to individuals for a period of 25 years. These loans must be repaid in monthly instalments by 2027. Mortgage loans are secured by mortgaged flats. In 2008 the current portion of these loans was equal to LTL 350 thousand (LTL 370 thousand in 2007) and was accounted for under trade and other receivables (Note 9). These loans were issued at a fixed interest rate ranging from 0.1 % to 1 %. Fair values of mortgage loans are provided below:

	Group		Company	
	2008	2007	2008	2007
Fair value of mortgage loans granted	3,146	4,023	3,146	4,023
Net book value of mortgage loans granted	3,225	3,541	3,225	3,541

Fair value of mortgage loans was estimated on the basis of cash flows discounted at a rate of 7.85 % (5.63 % on 31 December 2007). The weighted average effective interest rate used by the Group and the Company for discounting of mortgage loans as of 31 December 2008 is 7.55 %.

8. Inventories

	Group		Company	
	2008	2007	2008	2007
Materials and spare parts	6,629	8,327	2,364	2,754
Electric meters	483	2,191	479	2,187
Fuel	149	247	7	6
Other	378	300	96	134
Less: net realisable value allowance	(2,197)	(2,374)	(1,660)	(1,761)
	5,442	8,691	1,286	3,320

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2008 amounted to LTL 2,756 thousand and LTL 1,887 thousand, respectively (LTL 3,217 thousand and LTL 2,236 thousand as of 31 December 2007, respectively).

Amount of inventory recognised as expense in the Group and the Company during the year ended 31 December 2008 amounted to LTL 47,573 thousand and LTL 16,839 thousand, respectively (LTL 52,248 thousand and LTL 22,241 thousand as of 31 December 2007, respectively).

The movement in impairment allowance of inventories in 2008 and 2007 was as follows:

	Group		Company	
	2008	2007	2008	2007
Carrying amount as of 1 January	**2,374**	**2,582**	**1,761**	**2,118**
Increase in impairment allowance during the year	1,831	1,359	1,346	602
Usage of impairment allowance for inventory	(2,008)	(1,567)	(1,447)	(959)
Carrying amount at the end of the period	**2,197**	**2,374**	**1,660**	**1,761**

The usage in impairment allowance occurred as some of inventories were written off or used.

9. Trade and other receivables

	Group		Company	
	2008	2007	2008	2007
Trade receivables	115,968	105,562	113,767	104,480
Trade and other receivables from related parties (Note 28)	1,781	940	2,034	2,213
Loans provided to subsidiaries (Note 28)	-	-	2,000	3,000
Current portion of mortgage loans (Note 7)	350	370	350	370
Other receivables	10,644	1,500	10,677	1,402
Less: allowance for doubtful receivables	(19,152)	(18,509)	(19,115)	(18,472)
	109,591	89,863	109,713	92,993

Fair values of trade and other receivables approximate their carrying amounts.

Impairment of trade receivables is recognised in case of probability that the debtor will enter into bankruptcy as well as when the customer is in default or delays payment for more than 2 months.

The table below shows trade receivables of the Group and the Company that were not recognised as doubtful:

	Group		Company	
	2008	2007	2008	2007
Not overdue	92,219	82,845	90,055	81,800
Up to 1 month	3,276	3,270	3,276	3,270
1 to 3 months	640	781	640	781
From 3 months	681	157	681	157
Net book value	96,816	87,053	94,652	86,008

Other groups of trade and other receivables as well as prepayments include no impaired assets.

Trade receivables are non-interest bearing and are generally collectible on 25 – 35 days terms.

Movements in the allowance for impairment of the Group's trade and other receivables in 2008 and 2007 were as follows:

Balance as of 31 December 2006	18,114
Charge for the year	1,180
Utilised	(785)
Balance as of 31 December 2007	18,509
Charge for the year	1,387
Utilised	(744)
Balance as of 31 December 2008	19,152

Movements in the allowance for impairment of the Company's trade and other receivables in 2008 and 2007 were as follows:

Balance as of 31 December 2006	18,095
Charge for the year	1,162
Utilised	(785)
Balance as of 31 December 2007	18,472
Charge for the year	1,387
Utilised	(744)
Balance as of 31 December 2008	19,115

As of 31 December 2008 the Group's and the Company trade receivables with the nominal value of LTL 16,828 thousand (as of 31 December 2007 – LTL 16,795 thousand) were impaired and fully provided.

10. Prepayments, deferred charges and unbilled revenue

	Group		Company	
	2008	2007	2008	2007
Unbilled revenues from electricity sales	8,803	8,859	8,803	8,859
Taxes prepaid and receivable (except for profit tax)	-	379	-	379
Deferred expenses	1,704	1,576	1,557	1,488
	10,507	10,814	10,360	10,726

Unbilled revenue from electricity sales comprises earnings from electricity supplied to households but not paid for yet. They are estimated at 1/3 of payments received for electricity in January of the next reporting period.

11. Derivative financial instruments

In order to manage interest rate risks, the Company uses derivative financial instruments. In 2006, the Company concluded an interest rate swap (IRS) agreement enabling it to convert floating interest flows into fixed.

The nominal value of the IRS was LTL 21,580 thousand as of 31 December 2008 (LTL 32,280 thousand as of 31 December 2007).

As of 31 December 2008 and 2007 the fair value of interest rate swap comprised LTL 287 thousand liability and LTL 415 thousand asset, respectively.

Changes in fair value of derivatives are immediately charged to the income statement.

12. Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
Term deposit with the maturity less than three months	22,500	-	22,500	-
Cash at bank	493	3,737	229	3,497
Cash on hand	-	117	-	117
Cash in transit	92	273	92	273
	23,085	4,127	22,821	3,887

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

	Group		Company	
	2008	2007	2008	2007
Cash and cash equivalents	23,085	4,127	22,821	3,887
Bank overdraft (Note 20)	(15,606)	(34,175)	(11,161)	(31,293)
	7,479	(30,048)	11,660	(27,406)

The original term of all deposits is less than three months, the weighted average annual interest rate as of 31 December 2008 was 8.80 %.

13. Share capital

As of 31 December 2008, the Company's authorised share capital comprised 492,404,653 (as of 31 December 2007 - 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 2008.

14. Reserves

The legal reserve is a compulsory reserve under Lithuanian legislation. Companies must transfer 5 % of net profit to the legal reserve on an annual basis until the total amount of the reserve reaches 10 % of the authorised capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses. As of 31 December 2008 the legal reserve was fully formed.

The revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. According to Lithuanian legislation, the authorised capital may be increased from the revaluation reserve. However, the reserve may not be used to offset losses.

On 31 December 2008, the Company revaluated certain groups of property, plant and equipment. As a result, the revaluation reserve of the Group and the Company decreased by LTL 183,322 thousand and LTL 177,656 thousand, respectively, (increased by LTL 863,279 thousand and LTL 852,762 thousand as of 31 December 2007, respectively).

On 31 December 2008 the revaluation reserves of the Group and the Company comprised LTL 1,462,054 thousand and LTL 1,452,735 thousand, respectively (LTL 1,923,857 thousand and LTL 1,906,787 thousand in 2007, respectively).

Other reserves are formed based on shareholders' decisions and may be redistributed during appropriation of next year's profit. On 31 December 2008 other reserves of the Group and the Company amounted to LTL 336,169 thousand and LTL 333,519 thousand, respectively (LTL 160,207 thousand and LTL 158,521 in 2007, respectively).

15. Deferred revenue

	Group/Company	
	2008	2007
Deferred revenue of customer connection fees	164,774	106,869
Deferred revenue of services relating to public interests	489	496
Deferred revenue for electricity equipment replacement services	7,011	2,859
	172,274	110,224

<u>Deferred revenue of customer connection fees</u>

	2008	2007
At the beginning of the year	110,608	64,038
Deferred during the year	64,589	49,230
Recognised in the income statement	(4,615)	(2,660)
At the end of the year	170,582	110,608
Non-current portion	164,774	106,869
Current portion	5,808	3,739
Total	170,582	110,608

16. Grants, subsidies

The movement of grants and subsidies of the Group and the Company in 2008 and 2007 is as follows:

Balance as of 31 December 2006	3,908
Received	3,683
Amortisation	(185)
Balance as of 31 December 2007	7,406
Received	2,699
Amortisation	(527)
Balance as of 31 December 2008	9,578

The grants consist of the funds received from the EU for the purpose of an acquisition and construction of structures and electricity networks and the same type assets received for free from Government of the Republic of Lithuania.

The amortisation of grants of the Group and Company as of 31 December 2008 amounted to LTL 527 thousand (LTL 185 thousand as of 31 December 2007). The amortisation of grants is accounted for under depreciation and amortisation in the income statement and reduces the depreciation of related asset expenses.

17. Non-current employee benefits

Each employee of the Group and the Company is entitled to 2 - 6 months salary payment when leaving the job at or after the start of the pension period according to Lithuanian legislation and the conditions of the collective bargaining agreement.

Total amount of employee benefit expenses of the Group and the Company amounted to LTL 4,301 thousand during the year ended 31 December 2008 (LTL 1,373 thousand during the year ended 31 December 2007) and are included in employee benefits and related social insurance contributions expenses in the Group's and the Company's income statement.

The following table summarizes the components of net benefit expenses recognized in the Group's and the Company's income statement and the balance sheet:

	As of 31 December 2008	As of 31 December 2007
Opening defined benefit obligation	4,268	3,813
Interest cost on benefit obligation	691	488
Current service cost	122	109
Actuarial losses on obligation	3,488	776
Net benefit expenses (recognized in employee benefits and related social insurance contributions expenses)	4,301	1,373
Benefits paid	(2,501)	(918)
Closing defined benefit obligation	6,068	4,268

18. Non-current employee benefits (cont'd)

The principal assumptions used in determining pension benefit obligation for the Group's and the Company's plan is shown below:

	As of 31 December 2008
Discount rate	7.0 %
Employee turnover rate	12.4 %
Expected average annual salary increases	3.0 %

18. Trade and other payables

	Group		Company	
	2008	2007	2008	2007
Trade payables	35,983	90,720	30,654	82,312
Trade payables due to subsidiaries (Note 28)	-	-	9,699	11,794
Trade payables due to the Ministry of Economy controlled entities (Note 28)	91,565	72,939	91,565	72,939
Total trade payables	127,548	163,659	131,918	167,045
Taxes other than income tax	7,787	861	6,748	63
Payroll related liabilities	3,087	3,800	2,087	2,820
Other current liabilities	412	621	410	617
Total other payables	11,286	5,282	9,245	3,500
	138,834	168,941	141,163	170,545

Trade payables

As of 31 December 2008 trade payables of the Group and the Company decreased due to reduced payables to construction sector.

Terms and conditions of the financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60 - days terms.
- Other payables are non-interest bearing and have an average term of six months.
- Interest payable is normally settled quarterly throughout the financial year.
- For terms and conditions relating to related parties, refer to Note 28.

19. Advances received and accrued liabilities

	Group		Company	
	2008	2007	2008	2007
Advances received	45,370	58,224	45,334	58,208
Current portion of deferred revenues of customer connection fees (Note 15)	5,808	3,739	5,808	3,739
Accruals	15,434	6,726	13,973	5,102
	66,612	68,689	65,115	67,049

Advances received

Advances received mainly comprise advances receivable for new costumer connections and estimated overdeclaration of electricity that took place in 2008 due to the fact that the electricity prices were increased from 1 January 2009. The overdeclared amount was accounted for as advances received.

20. Borrowings

	Group		Company	
	2008	2007	2008	2007
Non-current				
Bank borrowings	143,111	95,836	143,111	95,836
Current				
Bank overdrafts	15,606	34,175	11,161	31,293
Bank borrowings	18,328	19,055	18,328	19,056
	33,934	53,230	29,489	50,349
Total borrowings	177,045	149,066	172,600	146,185

All the Group's and the Company's borrowings are bearing floating interest rate with the 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	
	2008	2007	2008	2007
Between 1 and 2 years	21,054	19,055	21,054	19,055
Between 2 and 5 years	94,798	66,423	94,798	66,423
Over 5 years	27,259	10,358	27,259	10,358
	143,111	95,836	143,111	95,836

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

	Group		Company	
	2008	2007	2008	2007
Bank overdrafts	4.45 %	5.3 %	4.45 %	5.2 %
Bank borrowings	4.64 %	5.1 %	4.27 %	5.1 %

Carrying amounts of non-current borrowings at floating interest rates and short-term borrowings are close to their fair values.

Carrying amounts of the Group's and the Company's borrowings are recorded in the following currencies:

	Group		Company	
	2008	2007	2008	2007
LTL	15,606	34,175	11,161	31,294
EUR	161,439	114,891	161,439	114,891
	177,045	149,066	172,600	146,185

20. Borrowings (cont'd)

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

	Group		Company	
	2008	2007	2008	2007
Bearing floating interest rate and expiring within one year	49,344	22,775	44,839	17,706
Bearing floating interest rate and expiring after one year	-	24,170	-	24,170

Outstanding loans as of 31 December 2008 are subject to certain contractual obligations. Management believes that the Group and the Company complied with these obligations, except below mentioned covenants.

Compliance with the covenants of the agreements

The Company did not comply with the covenant requiring that the Government of the Republic of Lithuania would control not less than 51 % of the Company's shares, however, Government of the Republic of Lithuania now controls 62 % of LEO LT, AB (controlling interest) and LEO LT, AB holds 71 % (controlling interest) of the shares of the Company, therefore, the management believes that the ultimate controlling interest of the Government of the Republic of Lithuania has not changed and the covenant is not breached.

21. Deferred income tax

Components of the Group's and the Company's income tax expense for 2008 and 2007 are presented below:

	Group		Company	
	2008	2007	2008	2007
Current income tax for the reporting year (including social tax for the year 2007)	22,072	17,078	21,976	16,611
Deferred income tax (benefit)	(28,740)	(3,147)	(28,344)	(3,534)
	(6,668)	13,931	(6,368)	13,077

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. Offset amounts are shown below:

	Group		Company	
	2008	2007	2008	2007
Components of deferred income tax asset:				
New customers connection income	5,153	4,010	5,153	4,010
Impairment of assets (inventories and trade accounts receivable)	3,742	2,786	3,702	2,786
Accrued expenses	2,298	1,444	1,995	1,242
Loss carry forward	548	-	-	-
Over-declared electricity	968	-	968	-
Deferred income tax asset before valuation allowance	12,709	8,240	11,818	8,038
Less: valuation allowance	-	-	-	-
Deferred income tax asset, net	**12,709**	**8,240**	**11,818**	**8,038**
Components of deferred income tax liability:				
Property, plant and equipment revaluation and changes due to different depreciation norms	(400,564)	(366,766)	(399,253)	(364,931)
Investment incentive	(19,278)	(15,535)	(19,278)	(15,535)
Deferred income tax liability	**(419,843)**	**(382,301)**	**(418,531)**	**(380,466)**
Set-off with deferred income tax asset	12,500	8,177	11,818	8,038
Deferred income tax asset after set-off	**209**	**63**	**-**	**-**
Deferred income tax liability after set-off	**(407,343)**	**(374,124)**	**(406,713)**	**(372,428)**

Deferred income tax asset and deferred income tax liability are set off in the balance sheet of the Company, as they both are related to the same tax authority. In the Group the deferred income tax related to subsidiaries is not set off and presented separately in the non-current assets part.

21. Deferred income tax (cont'd)

While assessing deferred income tax asset and liability components for the year ended 31 December 2008 the Group and the Company has used the income tax rate of 20 % for those items, which will be realised in 2009 and later. Increase of deferred tax asset liability of the Group and the Company due to increase in income tax rate as of 31 December 2008 amounted to LTL 115,884 thousand and LTL 115,351 thousand and was accounted for in the equity (the Group – LTL 107,519 thousand, the Company – LTL 107,038 thousand) and in the income statement (the Group – LTL 8,365 thousand, the Company LTL 8,313 thousand).

Change in deferred tax liability due to property, plant and equipment revaluation accounted for directly in the equity:

	Group		Company	
	2008	2007	2008	2007
Change in estimation of deferred tax due to the change in tax rate	(107,519)	-	(107,038)	-
Deferred tax on assets revaluation	45,830	(152,343)	44,414	(150,487)
	(61,689)	(152,343)	(62,624)	(150,487)

The reported amount of income tax expenses attributable to operations for the year can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate of 15 % for 2008 and 18 % for 2007 to pre-tax income from continuing operations as follows:

	Group		Company	
	2008	2007	2008	2007
Profit before income tax	(89,158)	88,236	(86,449)	85,909
Profit tax 15 % (18 % in 2007)	(13,374)	15,882	(12,967)	15,464
Permanent differences	(1,659)	(583)	(1,714)	(1,019)
Change in tax tariff	8,365	(1,368)	8,313	(1,368)
	(6,668)	13,931	(6,368)	13,077

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

22. Income (expenses) from financing activities

	Group		Company	
	2008	2007	2008	2007
Income from financing activities				
Overdue interest from trade receivables	861	692	857	689
Interest income from credit institutions	735	259	734	256
Interest income from loans granted	110	156	301	454
Dividend income	-	-	858	422
	1,706	1,107	2,750	1,821
(Expenses) from financing activities				
Interest (expense) on borrowings	(7,467)	(5,829)	(7,289)	(5,660)
Derivatives – interest rate swaps	(702)	160	(702)	160
Foreign exchange transaction (losses)	(2)	(1)	(2)	(1)
	(8,171)	(5,670)	(7,993)	(5,501)

23. Other expenses

	Group		Company	
	2008	**2007**	**2008**	**2007**
Write-offs of property, plant and equipment (Note 5)	5,850	8,418	5,861	8,404
Taxes other than income tax	5,017	4,758	4,185	3,881
Cash collection	3,982	5,384	3,982	5,384
Consulting	3,113	432	2,891	252
Cleaning	2,814	2,321	2,541	2,125
Communication	1,827	2,399	1,586	2,089
Security	1,812	937	1,065	653
Insurance	1,716	2,887	1,372	2,669
Change in impairment of accounts receivable and write-offs	1,390	1,116	1,365	1,110
Training	1,366	1,304	1,150	1,140
Cost of materials sold	906	997	4,190	8,363
Advertising, public relations	783	732	725	587
Stationery	740	897	665	833
Heating	693	588	678	569
Operating lease	599	400	946	611
Publishing	442	623	425	623
Asset management costs	414	495	414	488
Business trips	320	549	233	468
Charity, support	304	449	304	449
Other	2,930	1,449	3,291	3,506
	37,018	37,135	37,869	44,204

24. Basic and diluted 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	
	2008	**2007**
Profit attributable to the Company's shareholders (LTL thousand)	(82,490)	74,305
Weighted average number of shares (in thousand)	492,405	492,405
Basic earnings per share (LTL per share)	(0.17)	0.15

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 27, for the contributions in kind of electricity distribution equipment that are under common use by their owners and the Company. As of 31 December 2008 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 thousand (in 2007 – LTL 48,944 thousand). The commitment was calculated based on the market prices of the equipment at the dates on which the owners submitted their requests to the Company. As at the date of the issuance of these financial statements the decision to increase the share capital was not made by the shareholders of the Company, therefore, the management was not able to estimate how many new shares will be issued and was not able to calculate with sufficient certainty their dilutive impact.

25. Dividends per share

Dividends approved per share:

	2008	2007
Dividends approved	-	34,468
Weighted average number of shares	492,404,653	492,404,653
Dividends approved per share (in LTL)	-	0.07

26. Financial risk management

Credit risk

The Group and the Company does not face a significant credit concentration risk. Credit risk or the risk that the transaction party will not be able to recover amount receivable, is controlled by the application of credit terms and monitoring procedures.

The Group and the Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Company considers that its maximum exposure is reflected by the amount of mortgage loans provided to individuals, trade receivables, other receivables and derivatives, net of allowance for doubtful accounts recognised at the balance sheet date.

Due to the specific activity of the Group and the Company there is no requirement for collateral.

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

Maximum exposure to credit risk of the Group and the Company amounts to LTL 112,466 thousand and LTL 112,588 thousand as of 31 December 2008, respectively (LTL 93,449 thousand and LTL 96,579 thousand as of 31 December 2007, respectively).

Interest rate risk

The Group's and the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Group and the Company has no significant interest-bearing assets.

The major part of the Group's and the Company's borrowings is with variable rates, related to EURIBOR, EUR LIBOR and VILIBOR, which creates an interest rate risk.

The Group and the Company manages the interest rate risk by entering into interest swap agreements, usually by changing a variable interest rate into a fixed interest rate. The Company takes non-current borrowings from banks with the variable interest rate and concludes respective swap agreements for changing the variable interest rate to fixed interest rate by ensuring lower fixed interest rates as compared to those, which would have been applicable if the loan agreements with the fixed rate were directly concluded with the banks.

An interest rate swap agreement is a bilateral agreement according to which the parties undertake to swap the cash flows of interest calculated for the period agreed when entering into transaction on the agreed amount. Usually, according to this agreement the cash flows of one financial instrument (either with fixed or variable interest rate) are exchanged with the cash flows from other financial instrument (either with fixed or variable interest rate). In such transaction both parties can pay the calculated amount of interest or one of the parties can pay the difference between the interest amounts.

Interest swap agreements are concluded when the increase of the interest base-rate is projected in the future and hence the interest payable by the Group and the Company at the variable interest rate could increase respectively, or when the decrease of interest base-rate is projected in the future and hence the interest payable by the Company at the fixed interest rate could increase respectively.

As of 31 December 2008 and 2007 the borrowings of the Group and the Company which interest rate risk is managed by interest rate swap amounts to LTL 21,580 thousand and LTL 32,280 thousand, respectively. There are no other financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2008 and 2007 for the residual part (other than described above) of interest bearing borrowings.

26. Financial risk management (cont'd)

Interest rate risk (cont'd)

The following table demonstrate the sensitivity of the borrowings which risk was managed by interest rate swap to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's and the Company's equity, other than current year profit impact.

	Group		Company	
	Increase / decrease of %	Effect on the profit before income tax	Increase / decrease of %	Effect on the profit before income tax
2008				
EUR	+ 0.5 %	(676)	+ 0.5 %	(676)
EUR	- 2.5 %	3,378	- 2.5 %	3,378
LTL	+ 0.5 %	(78)	+ 0.5 %	(56)
LTL	- 2.0 %	312	- 2.0 %	279
2007				
EUR	+ 0.5 %	(434)	+ 0.5 %	(434)
EUR	- 1.0 %	869	- 1.0 %	869
LTL	+ 0.5 %	(171)	+ 0.5 %	(156)
LTL	- 2.0 %	684	- 2.0 %	626

Foreign exchange risk

All monetary assets and liabilities of the Group and the Company are denominated in litas or euro, and the exchange rate of the latter is fixed in respect to litas; therefore, the Group and the Company practically is not exposed to the foreign exchange rate risk.

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 31 December 2008 were 0.61 and 0.59, respectively (0.40 and 0.37 as of 31 December 2007, respectively). The Company's liquidity and quick ratios as of 31 December 2008 were 0.60 and 0.60, respectively (0.40 and 0.39 as of 31 December 2007, respectively). Current liabilities of the Company exceed its current assets as the Group and the Company tries to use credit terms provided by the supplies in the most effective way. To minimise cash balances in its accounts, the Company also uses credit lines and has additional facilities (Note 20).

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.

26. Financial risk management (cont'd)

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2008 and 2007 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings and other liabilities	-	20,075	39,423	96,156	12,805	168,459
Trade payables and other payables	-	167,487	181	412	-	168,080
As of 31 December 2007	-	187,562	39,604	96,568	12,805	336,539
Interest bearing borrowings and other liabilities	-	10,358	30,745	132,244	30,090	203,437
Trade payables and other payables	-	130,656	119	272	-	131,047
As of 31 December 2008	-	141,014	30,864	132,516	30,090	334,484

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2008 and 2007 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings and other liabilities	-	20,034	36,499	96,156	12,805	165,494
Trade payables and other payables	-	169,893	179	410	-	170,482
As of 31 December 2007	-	189,927	36,678	96,566	12,805	335,976
Interest bearing borrowings and other liabilities	-	10,296	26,234	132,244	30,090	198,864
Trade payables and other payables	-	134,028	117	270	-	134,415
As of 31 December 2008	-	144,324	26,351	132,514	30,090	333,279

Fair value of financial instruments

The Group's and the Company's principal financial instruments not carried at fair value are trade, the Group and other receivables, trade and other payables, non-current and current borrowings.

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

The carrying amounts of financial assets and liabilities of the Group and the Company are approximately equal to their fair value except for mortgage loans as it is disclosed in Note 7.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loans and other financial assets have been calculated using market interest rates. Fair value of interest rate swaps is calculated using the swap pricing valuation model.

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

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

27. Off-balance sheet liabilities

Buyout of electricity facilities jointly used by owners and the Company

According to Order No 4-450 of 3 December 2003 of the Minister of Economy, as amended by Order No 4-72 of 15 February 2005, the Company has an opportunity (not obliged) to buy out from individuals and companies electricity distribution installations jointly used by them and the Company. There are two buyout options available: the transfer of newly issued shares of the Company to owners of electricity networks provided that the issue price is paid by contributions in kind (i.e. jointly used electricity installations), or the conclusion of sales agreements on jointly used electricity distribution installations (cash payments).

The deadline for applications to buy out electricity distribution installations expired on 31 December 2005. However, the Government of the Republic of Lithuania on 5 December 2007 passed Resolution No 1281 extending the deadline for applications from gardening communities:
1) Applications to buy out properties must be submitted to power companies by 1 July 2009;
2) Title documents in relation to the relevant properties must be submitted by 31 December 2009 if they cannot be submitted together with the application to buy out the property.

The Company must settle with the owners of these electricity distribution installations by 31 December 2010.

As of 31 December 2008, the Company has received applications from installation owners to buy out electricity distribution installations by way of cash payments and newly issued shares for an approximate amount of LTL 4,100 thousand and LTL 48,944 thousand respectively (in 2007 – LTL 4,200 thousand and LTL 48,944 thousand, respectively). These amounts were calculated on the basis of market prices of installations effective on the day of application submission to the Company. Currently, the Company reviewing applications and evaluating the amounts to be paid and is buying out electrical installations from owners in exchange only for cash payments.

According to Lithuanian legislation, shareholders of the Company are entitled to decide on the issue of new shares. As of the day of these financial statements, shareholders of the Company have not decided to issue new shares.

28. Related parties transactions

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

In 2008 and 2007 the related parties of the Company were as follows:

Entities controlled by the Ministry of Economy of the Republic of Lithuania;
LEO LT, AB (main shareholder of the Company) and its subsidiaries;
Subsidiaries of the Company;
E.ON Ruhrgas International AG (Germany).

As of 31 December 2008 LEO LT, AB was the main shareholder of the Company.

For the purposes of this disclosure, transactions between the Company and the related parties comprise all transactions except for sales of electricity at the official tariffs.

The following transactions were concluded with related parties:

Sale of products and services	Group		Company	
	2008	2007	2008	2007
Subsidiaries	-	-	5,895	9,893
Entities controlled by the Ministry of Economy of the Republic of Lithuania	-	3,162	-	3,162
LEO LT, AB and its subsidiaries	1,029	-	1,029	-
	1,029	3,162	6,924	13,055

Purchase of products and services	Group		Company	
	2008	2007	2008	2007
Subsidiaries	-	-	89,215	93,753
Entities controlled by the Ministry of Economy of the Republic of Lithuania	514,378	605,880	514,378	605,880
LEO LT, AB and its subsidiaries	520,119	-	520,119	-
	1,034,497	605,880	1,123,712	699,633

28 Related-party transactions (cont'd)

Salaries of top executives	Group		Company	
	2008	**2007**	**2008**	**2007**
Salaries and other short-term employee benefits	1,565	1,664	1,565	1,664

Key management consist of 4 (as of 31 December 2007 – 7) members of the management of the Company.

During 2008 total compensation to the Company's Board members or their delegating institutions amounted to LTL 480 thousand (LTL 55 thousand - in 2007).

Receivables from related parties (Note 9):	Group		Company	
	2008	**2007**	**2008**	**2007**
Subsidiaries	-	-	144	1,172
Entities controlled by the Ministry of Economy of the Republic of Lithuania	-	46	-	46
LEO LT, AB and its subsidiaries	1,346	-	1,346	-
	1,346	46	1,490	1,218

Payables to related parties	Group		Company	
	2008	**2007**	**2008**	**2007**
Subsidiaries	-	-	9,699	11,794
Entities controlled by the Ministry of Economy of the Republic of Lithuania	51,059	72,939	51,059	72,939
LEO LT, AB and its subsidiaries	40,506	-	40,506	-
	91,565	72,939	101,264	84,733

Loans provided to subsidiaries	Company	
	2008	**2007**
At the beginning of year	3,000	4,000
Loans repaid during the year	(1,000)	(1,000)
Interest income	192	299
Interest received	(192)	(299)
At the end of year	2,000	3,000

The ageing analysis of receivables from related parties as of 31 December 2008 is as follows:

		Receivables past due but not impaired					
	Receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**More than 120 days**	**Total**
Company	1,378	112	-	-	-	-	1,490
Group	1,278	68	-	-	-	-	1,346

The ageing analysis of receivables from related parties as of 31 December 2007 is as follows:

		Receivables past due but not impaired					
	Receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**More than 120 days**	**Total**
Company	14	33	109	993	23	46	1,218
Group	11	33	2	-	-	-	46

29. Reclassification of comparative amounts

When preparing financial statements for the year ended 31 December 2008 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 2007. As a result the following reclassifications were made:

Balance sheet
Non-current receivables and prepayments for property, plant and equipment and intangible assets were split to separate lines in the balance sheet.
Prepayments, deferred charges and unbilled revenue were excluded form trade and other receivables and were presented in the separate line.
Advances received and accrued liabilities were excluded from trade and other payables caption and presented in the separate line.

Equity movement:
In the equity movement the deferred tax related to revaluation of property, plant and equipment was set-off with the revaluation impact of property, plant and equipment and presented in the line "Revaluation of non-current assets, net of deferred tax".

Cash flow statement
The amortization of deferred income was split in the cash flow statement as non cash item in adjustments part.

The management believes that amended classification of financial statements items better reflects substance of the amounts and transactions and IFRS requirements.

30. Capital risk management

The Company Law of the Republic of Lithuania stipulates that the minimum authorised capital of a public limited company must be at least LTL 100,000 shareholders equity must comprise at least 50 % of the company's authorised capital. As at 31 December 2008 and 2007 the Company complied with these requirements.

The Group and the Company finance their operations according to an optimal capital structure management policy aiming to ensure that the equity ratio (equity to assets) is above 40 percent. According to the management the capital for capital risk management purposes is viewed as total equity of the Group and the Company.

	Group		Company	
	2008	2007	2008	2007
Equity	2,422,639	2,795,970	2,417,176	2,781,951
Assets	3,405,000	3,680,040	3,395,294	3,661,201
Equity ratio (Equity/assets)	71 %	76 %	71 %	76 %

Consolidated annual report of the group of companies of Rytų Skirstomieji Tinklai AB for 2008

I. GENERAL INFORMATION

Reporting period covered by the annual report

The consolidated annual report provides information on the activities of public limited company Rytų Skirstomieji Tinklai (hereinafter referred to as 'RST' or 'the Company') and the whole group of companies in the financial year 2008 for its shareholders, creditors and other stakeholders.

Regulation of the annual report

The consolidated annual report of RST has been prepared in accordance with Article 25 of the Law on Financial Statements of Entities of the Republic of Lithuania and Article 9 of the Law on Consolidated Accounts of Entities of the Republic of Lithuania.

Persons responsible for the information provided in the annual report

Job title	Forename and surname	Telephone No
General Manager	Rimantas Vaitkus	(8 5) 251 26 59
Finance Department Director	Arvydas Zakalskis	(8 5) 251 26 52

Main data on the issuer

Name of the company	Public limited company **Rytų Skirstomieji Tinklai**
Company Reg. No	1108 70890
Authorised capital	LTL 492,404,653
Paid-up authorised capital	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	**info@rst.lt**
Website	**www.rst.lt**
Legal and organisational form	Public limited liability company, private legal entity with limited liability
Date and place of registration	31 December, 2001, Ministry of Economy of the Republic of Lithuania
Register in which data on the company are collected and stored	Register of Legal Entities

Nature of the main activities of the Company

The main activities of RST include electricity distribution in low and medium voltage power networks as well as power supply (sale) to customers in the eastern part of Lithuania.

As a distribution network operator, RST is responsible for the maintenance and development of low and medium voltage electricity networks. As a public electricity supplier, it supplies electricity to residents and business customers in the territory serviced.

RST provides services to 753,900 customers in a 34,800 sq m area. There are 25 territorial customer service offices in Vilnius, Panevėžys, Alytus and Utena counties and part of Kaunas and Marijampolė counties.

RST mission is reliable, safe and efficient supply of electricity to customers.

RST vision is to become the best energy company in Lithuania in terms of the quality of services, modern technologies and attractive working conditions.

Information on the RST group of companies

RST and its subsidiaries Elektros Tinklo Paslaugos UAB, Rytra UAB and Tetas UAB (hereinafter referred to as 'subsidiaries') make up the group of companies of Rytų Skirstomieji Tinklai AB (hereinafter referred to as 'the RST Group').
The common principles of reliability, customer orientation, and pursuit of efficient and profitable activities are applied throughout the Group.

Main data on subsidiaries

	Elektros Tinklo Paslaugos UAB	Rytra UAB	Tetas UAB
Registered office	Vilnius city municipality, Vilnius city, Motorų g. 2	Vilnius city municipality, Vilnius city, Motorų g. 2 / Geologų g. 16	Panevėžys city municipality, Panevėžys city, Senamiesčio g. 102B
Date and place of registration	8 December 2004, Register of Legal Entities	8 December 2004, Register of Legal Entities	8 December 2005, Register of Legal Entities
Reg. No	3000 72351	3000 72305	3005 13148
Telephone	(8-5) 210 68 09	(8-5) 210 65 39	(8-45) 504 577
E-mail	etp@rst.lt	rytra.info@rst.lt	sigita.bertuliene@rst.lt
Website	www.etp.rst.lt	www.rytra.lt	Has no website
Authorised capital, LTL	11,657,000	22,998,000	1,988,000
Type and class of shares held 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 of shares, LTL	1	1	1
Percentage of votes owned or controlled by the issuer at general meetings of the companies	100	100	100
Operating income, LTL mln	62.1	28.7	17.4
Net profit, LTL mln	0.063	0.136	0.50
Assets, LTL mln	26.1	30.6	5.6

All the shares of subsidiaries are owned by RST.
The main objective of subsidiaries is to provide services to the Group, expanding the circle of external customers at the same time.

Nature of main activities of subsidiaries

Subsidiary	Nature of activities
Rytra UAB	The company provides transport rental services. It rents machinery for construction and special-purpose machinery, cargo vehicles and passenger cars.
Elektros Tinklo Paslaugos UAB	The company provides the services of technical maintenance, operation and repair of the electric network and equipment, performs low voltage power network construction works and connects electrical equipment of new customers to the distribution network.
Tetas UAB	The company provides specialised services of technical maintenance, repair, design and installation of transformer substations and distribution points as well as carries out testing.

Overview of activities

Key events in 2008

The Law Amending and Supplementing the Law on the Nuclear Power Plant, which provided for the establishment of a national investor on the basis of a new parent company, transferring the state-owned stake in Rytų Skirstomieji Tinklai AB (or a part thereof) to the new parent company, was passed on 14 February 2008.

The Shareholder Agreement of national investor LEO LT AB (hereinafter referred to as 'LEO LT') was signed on 27 May 2008. An extraordinary general meeting of shareholders of LEO LT took place shortly thereafter, which decided to increase the authorised capital of LEO LT by asset contributions of shareholders, namely the Government of the Republic of Lithuania and NDX Energija UAB, i.e. by the shares of Rytų Skirstomieji Tinklai AB, Lietuvos Energija AB and VST AB.

On 2 June 2008, RST received a personal notice from LEO LT on the acquisition of voting rights. By this notice, LEO LT informed about the acquisition of voting shares by transferring them to LEO LT as an asset contribution.

On 2 June 2008, LEO LT said it would not make a mandatory tender offer to buy the remaining voting shares of RST as the applicable laws of the Republic of Lithuania did not establish such a requirement.

On 9 June 2008, RST received a personal notice from the Ministry of Economy of the Republic of Lithuania on the loss of voting rights of Rytų Skirstomieji Tinklai AB. By this notice, the Ministry of Economy of the Republic of Lithuania informed of the loss of voting shares by transferring them to LEO LT as an asset contribution.

New Articles of Association of the Company were approved at an extraordinary general meeting of shareholders of RST on 30 June 2008. According to the Articles of Association, the parent company of RST is national energy company LEO LT which owns at least 2/3 of the Company's shares and votes at the Company's general meeting of shareholders. RST, its parent company LEO LT and other subsidiaries make up a group of companies.
This version of the Articles of Association came into effect on 3 July 2008 after they were registered with the Register of Legal Entities.

RST became a member of LEO LT Group, which also includes electricity transmission and distribution network companies Lietuvos Energija AB and VST AB, as well as Visagino Atominė Elektrinė UAB, a company in charge of preparation of the new nuclear power plant project, and InterLinks UAB, a company implementing projects on intersystem power grids, which will connect electricity transmission networks of Lithuanian and other energy systems.

Upon the change of the principal shareholder, a new Supervisory Board and Board of the Company, which later influenced further structural changes, were elected at an extraordinary general meeting of shareholders of RST on 8 July 2008. Comprised of three persons, the elected Board became the main management body. Gintautas Mažeika was elected as Chairman of the Board and General Manager of the Company. The other members of the Board are Vytenis Kudinskas and Valdas Bancevičius.

In November 2008, two members of the Board, Gintautas Mažeika and Valdas Bancevičius, joined the Board of the Company's shareholder LEO LT. For this reason, the RST Board appointed in July was reshuffled. It was joined by three new members: Rimantas Vaitkus appointed as the Company's General Manager and Chairman of the Board, Laimutė Milašauskienė, RST Electricity Supply Director, and Virgilijus Žukauskas, RST Power Network Director who earlier worked as Vilnius Regional Power Network Director. One member of the previous Board, Vytenis Kudinskas, who worked as Deputy General Manager from July 2008, stayed.

Development and expansion of activities

Upon the change of the principle shareholder of RST and its incorporation into LEO LT Group, the Company has undergone major changes at the leadership level that have had an effect on structural changes. New departments and divisions were established at RST upon reorganisation of the Company's structure, namely the Law and Administration, Safety and Prevention, Personnel, Asset Management and Control, and Procurement Departments, Project Management, Marketing and Communication Divisions. The changes in the leadership and structure helped the Company and its subsidiaries take first steps towards more effective activities of the Group and boost customer satisfaction with the services provided by the companies.

In an effort to fight electricity thefts from the distribution network, in October 2008, RST established a special Safety and Prevention Department, which closely cooperates with law enforcement institutions. RST specialists' activities have already produced obvious results: criminal cases are solved and crime prevention is performed – special equipment reacting to a decrease in oil levels and sending signals on changes directly to police commissioner's offices is installed at transformer substations. Alarm systems, motion sensors and surveillance cameras are also installed at transformer substations. A total of 1,448 reports on unmetered electricity usage were drawn up in the territory serviced by RST in 2008, an average of 120 reports per month. In 2008, the Company recovered over LTL 1 mln from offenders on the basis of these reports on unmetered electricity usage.

An analysis of procurement conducted by RST was commissioned at the initiative of the RST leadership in the autumn of 2008 in order to ensure efficient procurement. It revealed possibilities to reduce the Company's costs considerably. Following the analysis of procurement aimed at ensuring efficient and transparent procurement, the functions of the Procurement Department were revised and procurement organisation procedures were facilitated and optimised.

The development of RST activities is closely related with the Company's investment projects. Their implementation not only boosts the reliability of the power network and ensures uninterrupted electricity supply but also increases the number of electricity users in the eastern part of Lithuania serviced by the Company. In the first half of 2008, when the real estate market was still developing at a quite fast pace, RST business development was boosted as well. Some 15,200 new users were connected to the RST distribution network over the year (compared with 14,700 in 2007). At the end of the year, the total number of the Company's customers grew to 753,900. The total permitted capacity of connected new customers' facilities made up 158.8 MW in 2008 (189.6 MW in 2007).

Investment in the power distribution network

In order to boost the reliability of the power network and at the same time improve the quality of customer services, RST regularly reconstructs and upgrades its power distribution network. In 2008, consolidated investments of RST Group (including inventory acquisition) made up LTL 260.7 mln, down by LTL 16.5 mln compared with 2007. In 2008, RST invested LTL 257.1 ml in non-current assets (including inventory acquisition). The bulk of investments went to modernisation of the power distribution network. Despite a slight decrease in investments in 2008, the Company heavily invests in the distribution network and increases the number of new customers.

By investing in the distribution network, the Company considerably reduces the number of breakdowns and their elimination costs. The amount of non-supplied electricity is reduced as well. Network reconstruction and maintenance prolong the life of network equipment and devices as well as reduce the Company's technological costs and commercial losses.

In 2008, RST carried out 5 transformer substation and 3 distribution point reconstruction projects, built 276 new transformer substations and laid 483 km of new power lines in Vilnius, Panevėžys, Alytus and Utena regions. Major reconstruction works were carried out at Baltupiai and Verkiai transformer substations in Vilnius, Savitiškis transformer substation in Panevėžys, Putinai transformer substation in Alytus and Molėtai transformer substation in Molėtai. In 2009, RST plans to start reconstruction works on Vingis and Lentvaris transformer substations in the Vilnius region and a distribution point in the Vilnius city as well as continue the implementation of projects that have already been started.

RST investments in non-current assets in 2008, LTL mln

Type of investment	2008	2007	Change	Investment structure in 2008	Investment structure in 2007
	LTL mln			percent	
Connection of electrical facilities of new customers	140.7	129.0	11.7	54.7	47.8
0.4-10 kV power networks	37.9	49.7	(11.8)	14.7	18.4
Transformer substations and distribution points	49.3	44.5	4.8	19.2	16.5
Other investments	29.2	46.6	(17.4)	11.4	17.3
Total	**257.1**	**269.8**	**(12.7)**	**100**	**100**

Connection of electrical facilities of new customers accounted for the bulk of RST investments in 2008 (54.7%). Given a fast increase in the permitted capacity and the number of new customers connected to the distribution network, these investments grew by LTL 11.7 mln as compared with 2007. These investments are mandatory because the effective legislation obliges RST to connect all willing customers to the distribution network.

The main reason for the necessity of other investments is the wear and tear of substations. Many of them have not been upgraded for several decades. In addition, due to the growing needs and number of customers, it is necessary to install more powerful substations meeting European standards from the technical point of view.

Investment in the development and modernisation of the power network brings both economic and social benefit to the public. In addition, adverse environmental impacts are reduced.

Customer services

Improvement of the quality of customer services was one of the key objectives of RST in 2008.
High-quality customer services in modern society have a direct relation to the use of modern technologies. Seeking to enable customers to use the advantages of modern technologies and offer them an opportunity to use the services provided by the Company faster and more conveniently, the Company has installed computerised self-service systems at all customer service offices. The Company's self-service website My Electricity has been improved: now customers can view their use and payment history, and business customers can report electricity meter readings.

Compared with the previous year, the number of RST customers' phone calls to 1802 for information grew by 37 percent in 2008. Interactive voice response has been introduced for customer convenience. Now customers can choose a subject of importance to them and thus be provided with fast and high-quality services. Consultants' conversations with customers were assessed each month in order to improve the quality of customer services on the phone.

A Customer Service Control Division has been established at the Company. One of its main functions is to ensure quality customer services and boost customer satisfaction with the services provided by the Company. In addition, the Company is introducing one-stop shop customer services. Upon implementing this project, RST offices can provide services to all customers approaching them about different issues. Customer service offices also provide services to new customers.

With the processes becoming more effective, customer service managers can devote more time to direct communication with customers. In 2008, RST customer service offices abandoned cash payments for electricity. Customers can pay for electricity used and services provided at all customer service offices using payment cards or by transferring money on the Internet. Customers can also pay for electricity at bank and post offices, Perlas lottery terminals and Lietuvos Spauda kiosks. The number of RST customers paying for electricity by Internet is on the rise. Almost 50 percent of business customers report electricity meter readings on self-service website My Electricity.

A Secret Buyer test carried out at the Company for a number of years has shown that the quality index of customer service offices rose from 75% to 85% over a year.

Environmental protection

In carrying out its activities, RST follows the principles of harmonious development and pollution prevention, based on which harmful materials remaining in old utility systems are regularly replaced with safer ones and equipment for collecting transformer insulation oil is installed.

During the reconstruction of transformer substations, obsolete and worn power transformers are replaced with transformers producing less noise, thus significantly reducing noise pollution. Preservation of the landscape and cultural heritage is taken into account when installing equipment.

RST continues its cooperation with the Institute of Ecology of Vilnius University in preservation of breeding sites for white storks, movement of white stork nests from power line supports, and in the protection of overhead electric lines against the effects of storks. In 2008, RST moved more than 250 stork nests from power line supports. The highest number of stork nests (115) was moved in the Alytus region, followed by the Panevėžys region (68) and the Utena region (65). The rest of stork nests were moved in the Vilnius region. Stork nests are placed on special supports, thus protecting power lines, ensuring safe and reliable power supply to customers, as well as protecting birds returning to their nests from possible harm.

In 2008, the Company also took part in a campaign initiated by the Ministry of Environment of the Republic of Lithuania, entitled Collect Batteries. During the campaign, the Company placed special containers for unusable galvanic cells, batteries and accumulators at various territorial offices and regions.

Support and social projects

In 2008, the Company contributed to several large education and culture projects.
The Company has been a patron of the Lithuanian State Symphonic Orchestra for several years already. The Company also sponsored the popular musical thriller Sweeney Todd: the Demon Barber, called a revolution in opera art.

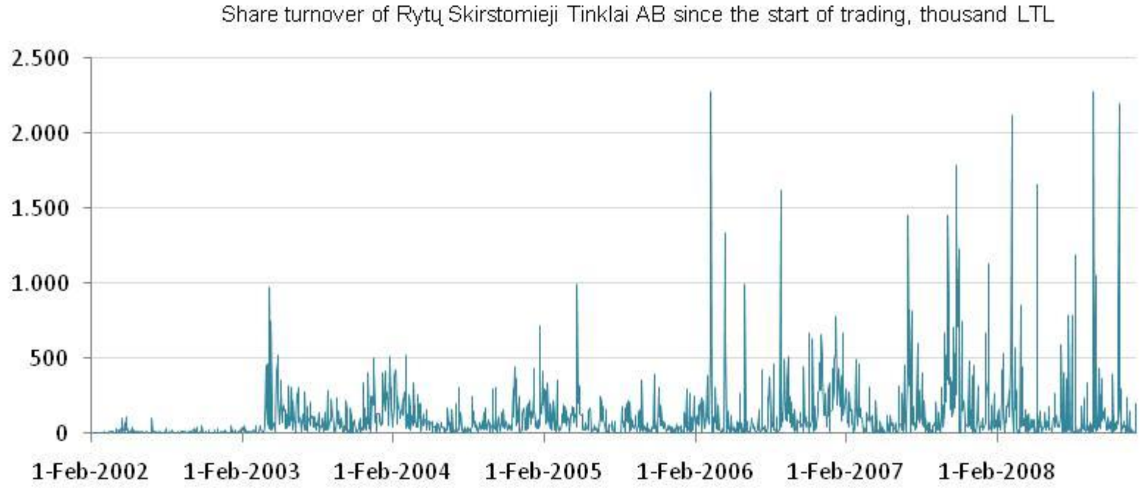
RST has sponsored high schools and students of technical disciplines for a number of years. In 2008, it offered student grants to students of the Faculty of Electronics of Vilnius Gediminas Technical University. The Company also contributed to the organisation of international scientific conference Electromagnetic Disturbances.

RST willingly initiates and implements social projects. Taking care of the safety of residents, in particular the smallest ones, in 2008, just like in several previous years, RST implemented a project for children entitled Be Careful! – lessons on safe use of electricity. Over 100 schools were visited and more than 350 lessons were delivered to 6,000 first to sixth grade schoolchildren in the territory serviced by the Company during the project. The project was implemented at Vilnius, Panevėžys, Alytus and Utena county schools. Children's homes and training centres for deaf and hard of hearing people were visited as well.

II. INFORMATION ON THE ISSUER'S SECURITIES, THE AUTHORISED CAPITAL AND MEMBERS OF MANAGEMENT BODIES

Information on the issuer's securities

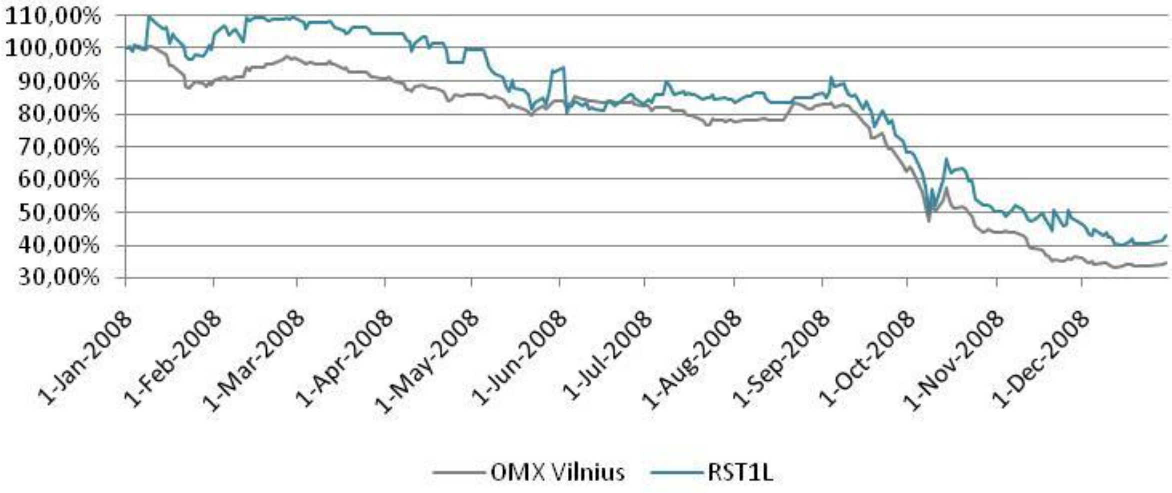
RST shares were included in the Secondary List of NASDAQ OMX Vilnius on 1 February 2002.
On 2 May 2007, the Company's shares were included in the Main List of NASDAQ OMX Vilnius.
RST shares are not traded in other regulated markets.
The securities of the Company's subsidiaries are not traded publicly as they are private limited companies and all of their shares are owned by RST.
The authorised capital of RST has not changed since the establishment of the Company (1 January 2002). It is comprised of 492,404,653 ordinary registered shares with a nominal value of LTL 1.
All the shares of the Company are registered for public trading.
ISIN code of securities – LT0000126385.
Abbreviation of securities – RST1L.



Since the start of trading in RST shares on the stock exchange, the share price increased 5.5 fold, from LTL 0.36 (1 February 2002) to LTL 1.99 (31 December 2008). The highest share price ever (LTL 5.58) was recorded on 24 October 2007.

In 2008, negative tendencies on global and Baltic stock exchanges had an impact on the RST share price. The share price decreased 2.3 fold, from LTL 4.60 (31 December 2007) to LTL 1.99 (31 December 2008). The highest and the lowest share price recorded over the year were LTL 5.05 and LTL 1.85, respectively.

Dynamics of the share price of Rytų Skirstomieji Tinklai AB and the OMX Vilnius index in 2008



RST shares are included in the OMX Vilnius index and the OMX Baltic Benchmark index of the first half of 2009. The OMX Baltic Benchmark index consists of the most traded stocks representing a certain economic sector. The Company represents the public utilities sector.

Information related to shares and dividends

	RST Group				
	2008	2007	2006	2005	2004
Number of shares	492,404,653	492,404,653	492,404,653	492,404,653	492,404,653
Net profit per share (LTL)	(0.17)	0.15	0.05	0.04	(0.16)
Highest share price (LTL)	5.13	5.80	3.86	3.66	2.72
Lowest share price (LTL)	1.85	3.20	2.17	2.47	1.40
Average share price (LTL)	3.61	4.23	2.71	3.06	1.67
Last share price (LTL)	1.99	4.60	3.75	2.81	2.70
Share turnover (LTL mln)	37.48	45.55	36.80	20.69	23.94
Capitalisation (LTL mln)	979.89	2,265.06	1,846.52	1,383.66	1,329.49
Dividends per share paid (LTL)	n/d	-	0.07	0.07	-
PE ratio	(11.7)	30.67	75.00	70.25	(16.88)
Dividends/net profit	n/d	-	1.54	1.84	-
Total dividends (LTL mln)	n/d	-	34.468	34.468	-

Information on agreements with intermediaries of public trading in securities

On 10 May 2007, RST concluded an issuer services agreement with a consortium comprised of SEB Bank AB (company reg. No 112021238, Gedimino pr. 12, LT-01103 Vilnius) and law firm Adamonis, Beržanskienė ir Partneriai SORAINEN LAW OFFICES (company reg. No 9400025, Jogailos g. 4, LT – 01116 Vilnius), represented by the Financial Markets Department of SEB Bank AB. Under the agreement, the consortium undertakes to manage the Company's securities accounts, provide dividend payment services and represent the Company in the Lithuanian securities market.

Restrictions on the transfer of securities

No restrictions are imposed on the transfer of RST securities.

Authorised capital structure

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Percentage of authorised capital
Ordinary registered shares	492,404,653	1	492,404,653	100.00

Rights and obligations granted by the shares

All ordinary registered shares grant the same rights. Share owners are granted the right to participate in the management of the Company, unless otherwise provided by law, the right to receive dividends, the right to a portion of the Company's assets remaining after its liquidation, and other rights provided by law.

Shareholders

On 31 December 2008, the number of RST shareholders totalled 6,396.
At the time of the last general meeting of shareholders on 2 December 2008, there were 6,334 shareholders.

Shareholders who owned more than 5 percent of the issuer's authorised capital as at 31 December 2008

Forename and surname of shareholder (company name, legal form, registered office, reg. No)	Number of ordinary registered shares owned by shareholder	Percentage of authorised capital held	Percentage of votes carried by shares owned
LEO LT, AB, Žvejų g. 14, LT-09310 Vilnius, Company reg. No 301732248	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

Shareholders having special rights of control and descriptions of their rights

None of the RST shareholders has any special rights of control. All the RST shareholders have the same (property and non-property) rights provided by the Law on Companies of the Republic of Lithuania and the RST Articles of Association.

Restrictions on voting rights

There are no restrictions on voting rights at the Group.

Mutual agreements among shareholders the issuer is aware of, which may be a reason for restricting the transfer of securities and/or voting rights

RST does not know any mutual agreements among shareholders which could be a reason for restricting the transfer of securities and/or voting rights.

Procedure for amending the Articles of Association

The general meeting of shareholders has the right to amend the Articles of Association of RST and its subsidiaries.

Management bodies

RST management bodies include the general meeting of shareholders, the Supervisory Board, the Board and the head of RST.
The management bodies of subsidiaries are the general meeting of shareholders, the Board and heads of the companies.

Supervisory Board
The Supervisory Board of RST, which is comprised of 5 members, is elected (and dismissed) by the general meeting of shareholders. The Supervisory Board of RST was elected at an extraordinary general meeting of shareholders on 8 July 2008. The Supervisory Board was elected for a period of time established in the RST Articles of Association, i.e. for four years.

Board
Members of the RST Board are elected (and dismissed) by the Supervisory Board for a period of 4 years.
A new RST Board was elected at a meeting of the Supervisory Board on 8 July 2008. On 4 December 2008, this Board was dismissed, with a new Board elected by the Supervisory Board for the remaining term of office.
Members of the Boards of subsidiaries are elected (and dismissed) by the general meeting of shareholders for a period of 4 years.

Head
The head of RST -- the general manager -- is appointed and dismissed by the RST Board. Since 4 December 2008, the Company has been headed by Rimantas Vaitkus.

The powers of management bodies of RST and its subsidiaries and the procedure for appointing and dismissing them are specified in the Articles of Association of RST and its subsidiaries.

Members of management and supervisory bodies and their share in the authorised capital of the issuer

Until 08 07 2008

Forename and surname	Position	Share in authorised capital held (%)	Number of votes (%)
Supervisory Board			
Anicetas Ignotas	Chairman	-	-
Mario Nullmeier	Member	-	-
Saulius Spėčius	Member	-	-
Aušra Pažėraitė	Member	-	-
Nijolė Bujauskienė	Member	-	-
Board			
Jonas Rimantas Kazlauskas	Chairman	-	-
Rimantas Milišauskas	Member	-	-
Nijolė Sabonienė	Member	-	-
Algimantas Zaremba	Member	-	-
Administration			
Rimantas Milišauskas	General Manager	-	-
Valdas Bancevičius	Power Network Director	0.00008	0.00008
Saulius Kasparavičius	Power 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 Accountant	0,000002	0,000002

Since 08 07 2008

Forename and surname	Position	Share in authorised capital held (5)	Number of votes (%)
Supervisory Board (elected at the extraordinary general meeting of shareholders on 08-07-2008)			
Andrius Šimkus*	Chairman	-	-
Mario Nullmeier	Member	-	-
Vidmantas Grušas	Member	-	-
Darius Kašauskas	Member	-	-
Algimantas Zaremba	Member	-	-
Board (elected at the Supervisory Board's meeting on 04-12-2008)			
Rimantas Vaitkus	Chairman	-	-
Vytenis Kudinskas	Member	-	-
Laimutė Milašauskienė	Member	-	-
Virgilijus Žukauskas	Member	0.000002	0.000002
Head of the Company (elected at the Board meeting on 04-12-2008), Chief Financier			
Rimantas Vaitkus	General Manager	-	-
Veslava Juchevič	Head of the Accounting Department	-	-

*On 19 February 2009, Andrius Šimkus resigned as member of the RST Supervisory Board.

Data on the participation of member of the Supervisory Board, Board and administration in the activities of other companies, institutions and organisations (name of the company, institution or organisation, position, percentage of other companies' capital and votes held in excess of 5%)

Until 08 07 2008

Forename and surname	Name of organisation, position	Percentage of other companies' capital and votes held
Supervisory Board		
Anicetas Ignotas	Undersecretary of the Ministry of Economy of the Republic of Lithuania	-
	Chairman of the Supervisory Board of Lietuvos Energija AB	-
	Member of the Supervisory Board of Kauno Energija AB	-
Mario Nullmeier	Head of the Baltic office of E.ON Ruhrgas International (ERI) AG	-
Saulius Spėčius	Adviser to the Prime Minister of the Republic of Lithuania	-
	Member of the Board of Klaipėdos Nafta AB	-
	Member of the Supervisory Board of Lietuvos Energija AB	-
	Member of the Supervisory Board of Lietuvos Elektrinė AB	-
Aušra Pažėraitė	Scientific worker of the Lithuanian Energy Institute	-
Nijolė Bujauskienė	Chief specialist of the State Property Privatisation Division of the Company Law and Privatisation Department of the Ministry of Economy of the Republic of Lithuania	-
	Member of the Supervisory Board of Lietuvos Energija AB	-
	Member of the Supervisory Board of Lietuvos Elektrinė AB	-
Board		
Jonas Rimantas Kazlauskas	Deputy Director of public enterprise Energy Agency	-
Nijolė Sabonienė	Specialist of the Stock Management Division of public enterprise State Property Fund	-
	Member of the Board of Gargždų Mida UAB	-
Algimantas Zaremba	Director of the Energy Department of the Ministry of Economy of the Republic of Lithuania	-
	Member of the Board of Lietuvos Energija AB	-
Administration		
Rimantas Milišauskas	-	-
Valdas Bancevičius	Chairman of the Board of Elektros Tinklo Paslaugos UAB	-
	Chairman of the Board of Tetas UAB	-
Saulius Kasparavičius	-	-
Arvydas Zakalskis	-	-
Rolandas Baškys	Chairman of the Board of Rytra UAB	-
Rimantas Aliukonis	Member of the Board of Elektros Tinklo Paslaugos UAB	-
Antosė Muliuolienė	-	-

Since 08 07 2008

Forename and surname	Name of organisation, position	Percentage of other companies' capital and votes held
Supervisory Board		
Andrius Šimkus	Chief Legal Officer of LEO LT AB until 01-12-2008 Member of the Supervisory Board of LitPol Link Sp. z o.o. until 30-09-2008	-
Mario Nullmeier	Head of the Baltic office of E.ON Ruhrgas International (ERI) AG,	-
Vidmantas Grušas	Member of the Board of Lietuvos Energija AB Deputy General Manager of Lietuvos Energija AB for the Transmission Network Director of the Transmission Network Department of Lietuvos Energija AB	-
Darius Kašauskas	LEO LT AB Director for Control and Analysis	-
Algimantas Zaremba	Director of the Energy Department of the Ministry of Economy of the Republic of Lithuania	-
Board		
Rimantas Vaitkus	-	-
Vytenis Kudinskas	Chairman of the Board of RYTRA UAB	5% in AJ Šokoladas UAB
Laimutė Milašauskienė	-	-
Virgilijus Žukauskas	-	-
Head and Chief Accountant of the Company		
Rimantas Vaitkus	-	-
Veslava Juchevič	-	-

Information on payments to members of the RST management and supervisory bodies in the reporting period

	Salaries, LTL	Other payments*, LTL	Tantiemes, LTL (paid in 2008)	Other payments from profit (dividends), LTL
To members of the Supervisory Board	-	-	-	-
To all members of the Board	480,845	-	80,000	-
In average per one member of the Board (4)	120,211	-	20,000	-
To all members of the administration until 30-06-2008	1,084,507	1,025,640	-	130,647
In average per one member of the administration (7)	154,930	146,520	-	18,664

* Other payments – holiday pays and redundancy payments.

Note: the administration worked until 30 June 2008.

Other special payments to the Chairman of the Board, the Board and the Supervisory Board

There were no other special payments to the Chairman of the Board, members of the Board and the Supervisory Board.

Information on assets transferred and guarantees provided to members of management bodies

RST has not transferred any assets to members of management bodies.
The Company has provided members of the Board with directors and officer's liability insurance.

Biographical information on members of the Board

Rimantas Vaitkus

Position: General Manager, Chairman of the Board
Took office: in December 2008.
Education: In 1979, graduated from the Faculty of Physics of Vilnius University. In 1988, defended a dissertation in physics and mathematics. In 1989-1991, interned with the Tokai University of Japan.
Work experience: In 1991-1994, worked as a researcher at Japanese company Semiconductor Energy Labaratory, CO. Ltd.
Since 1997, has held a managerial position: worked as a deputy head of the International Relations Department of the Parliament of the Republic of Lithuania; in 1999, was appointed as a Vice-Minister of Economy of the Republic of Lithuania in charge of nuclear energy.
Since 2001, has been the General Manager of IBM Lietuva UAB.
Additional activities: Rimantas Vaitkus actively participates in social life, holds positions at community-based organisations, is the Chairman of the Board of the Knowledge Economy Forum and a member of Vilnius Old Town club Rotary.

Vytenis Kudinskas

Position: Deputy General Manager, member of the Board
Took office: in July 2008.
Education: in 1984, finished industrial electronics studies at the Faculty of Automation of the Kaunas Polytechnic Institute.
Work experience:
In 1992-2006, performed managerial work at Lithuanian commercial banks (Vakarų Bankas AB, Hermis Bank AB, SEB Vilnius Bank AB). From 2006 to 2008, worked as a deputy general manager of insurance companies PZU Lietuva UAB and PZU Lietuva Gyvybės Draudimas UAB and was a member of the Boards of these companies.

Virgilijaus Žukauskas

Position: Power Network Director, Deputy General Manager, member of the Board
Took office: in November 2008.
Education: In 1985, finished studies of power supply to industrial enterprises at the Department of Electrical Systems of the Kaunas Polytechnic Institute.
Work experience: In 1994-2008, performed managerial work at Lietuvos Energija AB and Rytų Skirstomieji Tinklai AB.

Laimutė Milašauskienė

Position: power Supply Director, member of the Board.
Took office: in July 2008 (member of the Board since December 2008)
Education: In 1982, finished credit studies at the Faculty of Economic Cybernetics and Finance of Vilnius University. In 2000, accomplished international trade studies at the International Business School of Vilnius University.
Work experience: In 1990-2006, performed managerial work at the Bank of Lithuania and SEB Vilnius Bank AB.

Information on major transactions of associated parties – indicate the value of transactions, the nature of relations among associated parties, and other information on transactions necessary to understand the Company's financial situation, if such transactions are significant or have been concluded in unusual market conditions

Information on transactions of associated parties is provided in clause 28 of the notes to the audited consolidated annual financial statements for 2008.

Significant agreements to which the issuer is a party and which would come into effect, change or would be terminated if the control of the issuer changed, as well as effects thereof, except in cases where revelation thereof would cause considerable damage to the issuer due to the nature of such agreements

The Company has not entered into significant agreements which would come into effect, change or would be terminated if the control of the issuer changed.

Agreements between the issuer and members or employees of its bodies providing for compensation in case of their resignation or groundless dismissal or end of their job due to a change in the control of the issuer

An agreement on the activities of member of the Company's Board has been concluded between the Company and members of the Company's Board. It provides for compensation for members of the Board in case of their resignation or groundless dismissal, or if a member of the Board quits his/her job for other reasons.

Audit Committee

The Supervisory Board of LEO LT has established a standing Audit Committee for implementation of the provisions of Article 52 of the Law on Audit of the Republic of Lithuania. After establishing the Audit Committee of LEO LT, it is not compulsory to set up audit committees at subsidiaries referred to in Article 52(1) of the Law on Audit.

The Audit Committee of LEO LT is comprised of the following members: Marijus Kriščiūnas (Committee Chairman) and Vita Markevičiūtė. A third member of the Audit Committee is planned to be appointed.

The Audit Committee expresses its opinion and provides proposals on the preparation of financial reports, use of assets and financial resources, monitoring of activities and submission of reports to shareholders as well as performs other functions specified in the regulations of the Supervisory Board of LEO LT and assigned by its decision.

Information on compliance with the Corporate Governance Code

Acting in accordance with Article 21(3) of the Law on Securities of the Republic of Lithuania, RST provides a report on compliance with the Corporate Governance Code for companies whose securities are traded in the regulated market, approved by NASDAQ OMX Vilnius AB.

III. ANALYSIS OF FINANCIAL RESULTS

In 2008, the operating income of the RST Group reached LTL 1,193.9 mln, up by 12.9% from 2007 (LTL 1,057.8 mln). In 2008, the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) made up LTL 253.4 mln, a rise by 11.9% from LTL 226.5 mln in 2007.
The Group's loss before tax totalled LTL 89.2 mln in 2008. In 2007, profit before tax made up LTL 88.2 mln. In 2008, net loss of the RST Group was LTL 82.5 mln. In 2007, net profit of the Group reached LTL 74.3 mln.

Negative operating results of RST in 2008 were determined by revaluation of non-current assets of the RST Group carried out in 2007 and 2008. After the revaluation of non-current assets of the RST Group in 2007, their value increased considerably, which determined an increase in depreciation costs in 2008 by LTL 104.5 mln. A slump in real estate prices in the market and a decrease in RST non-current asset renovation costs determined a drop in the value of non-current assets of the RST Group by LTL 307.2 mln in 2008. Part of the decrease in the value of non-current assets (LTL 47.9 mln) in 2008 was included in non-current asset depreciation costs.

Subsidiaries receive more than 90% of income from the RST Group and therefore consolidated operating results do not differ much from RST results.

Table 2.1. The main financial indicators of the RST Group in 2008.

Indicators	2008	2007	2006	2005	2004
Income (LTL thousand)	1,193,863	1,057,815	935,013	870,012	741,585
EBITDA margin (%)	21.2%	21.4%	22.0%	22.8%	15.7%
Operating profit (loss) (LTL thousand)	(82,693)	92,799	30,429	25,712	(87,114)
Operating profit margin (%)	-6.9%	8.8%	3.3%	3.0%	-11.7%
Profit (loss) before tax (LTL thousand)	(89,158)	88,236	27,045	22,081	(91,643)
Profit margin before tax (%)	-7.5%	8.3%	2.9%	2.5%	-12.4%
Net profit (loss) (LTL thousand)	(82,490)	74,305	22,355	18,737	(77,035)
Net profit margin (%)	-6.9%	7.0%	2.4%	2.2%	-10.4%

Table 2.2. The main relative financial ratios of the RST Group for 2008

Indicators	2008	2007	2006
Return on equity (ROE) (%)	-3.4%	2.7%	1.2%
Return on assets (ROA) (%)	-2.4%	2.0%	0.9%
Equity/assets ratio	0.71	0.76	0.75
Debt/equity ratio	0.41	0.32	0.33
Gross liquidity ratio	0.61	0.40	0.41

Losses incurred by the RST Group in 2008 resulted in a decrease in all profit and return ratios.
The EBITDA margin of the Group, which measures the share of EBITDA (*earnings before interest, tax, depreciation and amortisation)* in revenue, went down by 0.2%, to 21.2%.
The debt/equity ratio, which measures liabilities, went up from 0.32 to 0.41 in 2008. This ratio shows that the bulk of the Group's assets are financed by equity, which exceeds liabilities 2.5 fold.
The equity/assets ratio, which shows the share of the Company's assets controlled by the Company's owners, decreased from 0.76 to 0.71 in 2008.
Changes in these ratios were influenced by changes in the revaluation reserve determined by an increase in income tax and a decrease in the value of non-current assets as well as an increase in the liabilities of the RST Group.

Income

In 2008, RST sold customers 4.277 mln kWh of electricity, up by 3.5% from 2007. Compared with 2007, the average electricity selling price for end users increased by 9.3% in 2008 due to increased electricity generation, transmission and distribution prices.

In 2008, the consolidated income of the RST Group made up LTL 1,193.9 mln (RST – LTL 1,191.0 mln), up by LTL 136.0 mln or 12.9% year-on-year. The rise in income was determined by an increase in the amount of electricity sold and higher electricity selling prices. In the wake of an economic slowdown in the IV quarter of 2008, electricity sales started to decline.

Costs

In 2008, RST bought 4.639 mln kWh of electricity, up by 1.6% from 2007.

Variable costs – purchase and transmission of electricity – made up LTL 715.5 mln in 2008, up by LTL 99.8 mln or 16.2% year-on-year. The rise in variable costs in 2008 was determined by an 18.5% increase in the electricity purchase price, which was influenced by growing prices of energy resources. These costs also grow due to an increase in the amount of electricity bought.

In 2008 compared with 2007, depreciation costs of the RST Group grew by LTL 104.5 mln to LTL 286.5 mln. Following the decrease in the value of non-current assets in 2008, negative asset revaluation of LTL 47.9 mln was recognised as costs of the reporting period.

In 2008, operating costs of the RST Group, excluding variable, depreciation costs and the effect of revaluation, made up LTL 227.4 mln, up by LTL 10.2 mln year-on-year. The increase in costs was determined by a rise in payments to staff: the average salary increased and redundancy payments were made in 2008.

In 2008 compared with 2007, consolidated costs of the Group went up by 32.3% and made up LTL 1,277.3 mln. The increase in costs was determined by higher electricity generation prices, depreciation costs and the negative effect of asset revaluation.

Assets

In 2008, the value of the Group's non-current assets shrank by LTL 307.2 mln, to LTL 3,255.9 mln. The decrease in the value was determined by negative results of non-current asset revaluation (LTL 277.0 mln) and investments lower than depreciation costs.

In 2008, current assets of the RST Group grew by LTL 32.5 mln, to LTL 148.9 mln. The change in current assets was determined by an increase in the balance of cash and cash equivalents at the end of 2008 as well as an increase in receivables for electricity sold as a result of a rise in income.

Equity

The Group's consolidated equity decreased by LTL 373.3 mln and made up LTL 2,422.6 mln at the end of 2008. The equity shrank due to negative results of revaluation of non-current assets and an increase in income tax at the start of 2009.

Liabilities

In 2008, liabilities of the RST Group increased by LTL 98.3 mln to LTL 982.4 mln.

Long-term liabilities grew by LTL 146.1 mln, but short-term liabilities decreased by LTL 47.8 mln in 2008.

Long-term liabilities increased due to a rise in accrued income from the connection of new customers (LTL 62.1 mln), recalculation of deferred tax in the wake of an increase in income tax (LTL 33.2 mln) and a rise in long-term financial debts (LTL 47.3 mln). At the end of 2008, financial debts of the RST Group amounted to LTL 177 mln (including LTL 143.1 mln of long-term and LTL 33.9 mln of short-term debts). In 2008, RST also signed a LTL 15 mln long-term loan agreement with Nordic Investment Bank (NIB) for financing investments.

Contractual agreements with auditors

At an extraordinary general meeting of RST shareholders on 2 December 2008, it was decided to choose audit firm Ernst & Young Baltic UAB (company reg. No 110878442) for auditing consolidated financial statements of public limited company Rytų Skirstomieji Tinklai and its subsidiaries as well as financial statements of public limited company Rytų Skirstomieji Tinklai for 2008.

On 5 December 2008, RST and audit firm Ernst & Young Baltic UAB signed a contract on carrying out an audit of consolidated financial statements and RST licensed activity costs for 2008.

IV. RISK FACTORS

In its activities, the Group is exposed to economic, political and other risk factors.

Economic risk factors

The main risk factors related to activities:

- Dependence on the main Lithuanian electricity producer – the Ignalina Nuclear Power Plant (Ignalina NPP);
- The general economic situation of the country;
- Liberalisation of the electricity market;
- Changes in prices of equipment, machinery and materials used for the operation and construction of the power network.

RST buys the bulk of electricity from the Ignalina Nuclear Power Plant and is therefore exposed to the risk of unscheduled shutdown thereof. In the event of a shutdown of this power plant, RST would be forced to buy more expensive electricity from alternative sources. For this reason, there is a risk of an increase in the major component of costs, i.e. the electricity purchase price. The risk of fluctuations in the electricity generation price will increase in 2010 after the Ignalina NPP is shut down.

All RST customers can choose an electricity supplier and conclude an electricity purchase and sale contract with the supplier. Therefore, the Company is exposed to the risk of losing a market share.

Operating and expanding its distribution network, RST buys electrical equipment and materials the prices of which depend on market tendencies. RST network operation costs and investments in the power network, which influence the financial results of RST, depend on the prices of these goods.

The country's economic situation has a direct effect on tendencies in electricity sales, connection of new customers and customers' solvency. The value of RST Group's assets depends on real estate market prices and power network renovation costs.

Political risk factors

The RST Group operates in the energy sector which is regulated by the Law on Electricity of the Republic of Lithuania. In this regard, the activities and operating results of the Group depend on possible amendments to the abovementioned Law and other related legal acts.

RST licensed activities are controlled by the State Prices and Energy Control Commission (hereinafter referred to as 'the SPECC) which establishes caps on state-regulated prices, controls the application of state-regulated prices and tariffs as well as approves energy entity connection prices. Specific electricity tariffs for end users are approved by the RST Board, but they are announced or unilaterally approved by the SPECC.

The activities, decisions and operating results of RST may depend on state policy on social, economic and other issues.

Technical and technological risk factors

Distribution of power in the power network involves technological costs and commercial losses. Technological costs depend on the technical characteristics and optimum use of the distribution network. Commercial losses result from unsanctioned connection to the power network as well as electricity thefts through illegal damage of electricity meters and metering system elements. In order to eliminate commercial losses caused by external entities, RST is actively involved in the prevention of electricity thefts and relocation of metering devices to places easily accessible to the operator of the distribution network.

One of the key factors characterising the activities of the distribution network operator is the reliability of power distribution, which is evaluated according to the duration and number of user disconnections. Unpredictable external factors such as natural disasters pose the risk that the Company may fail to ensure reliable power supply to users and to receive expected income, and that the elimination of respective malfunctions will entail additional operating expenses.

Ecological risk factors

RST is a power distribution company. Unlike electricity production companies, it does not cause any significant pollution of the environment. Restriction or termination of RST activities due to possible environmental damage is little likely.

Bank loan repayment risk factors

Following the guidelines of borrowing programmes of previous years, RST has evenly distributed portions of loans to be repaid within the timeframe. Loans to credit institutions are repaid and interest paid within time limits established in agreements.

Financial risk management

In managing financial risks, RST follows the approved key treasury management provisions of LEO LT Group, based on which speculative profit-making is not the main objective of treasury management: financial liabilities and financial assets must be managed so as to ensure current and planned usual activities.
Detailed information on financial risk management is provided in clause 27 of the notes to the audited consolidated annual financial statements for 2008.

PLANS OF ACTIVITIES AND FORECASTS

The RST Group does not intend to change its main activities in 2009. The key objectives for 2009 include boosting of efficiency of activities, improvement of the quality of customer services as well as enhancement of reliability of power supply and distribution. RST will give particular attention to social responsibility programmes, encouraging customers to use electricity effectively, responsibly and safely.

Due to an increase in the electricity tariff, in 2009 the Group's income is planned to grow by 3% as compared with the previous year. In 2009 compared with 2008, operating costs, except depreciation and electricity purchase costs, are planned to be reduced by 21%. In 2009, RST and the Group are expected to operate profitably.
LTL 184 mln is planned to be invested in non-current assets in 2009. The main areas of investment will remain the same:

- Connection of new customers' facilities;
- Reconstruction of transformer substations;
- Development of the 0.4-10 kV power network.

V. OTHER INFORMATION ON THE RST GROUP

Employees

Qualified, educated and properly-motivated staff is the greatest value and a guarantee of efficient and successful activities. Therefore, the Group creates a safe working environment and a motivation system, so that each employee feels an important part of the Group.
Various training programmes are implemented to improve staff skills. Such programmes are aimed at enhancing leadership and team work skills of employees at various levels, supporting those eager to learn more, attracting new employees having appropriate qualification.
Valuing and treasuring its qualified specialists, the Group constantly invests in their safety and training.
In the wake of development of more effective corporate management structures and changes in personnel management, at the end of 2008 compared with the start of the year, the number of the Group's employees decreased by 490. Such a change was determined by optimisation of management of the company.

The average number of RST employees in 2008 was 2,048.8. In 2007, it stood at 2,146.2.

Number of employees of the Group

Company	Number of employees		Change
	2007	2008	
Group	3,075	2,585	-15.9%
RST	2,157	1,840	-14.6%
Elektros Tinklo Paslaugos UAB	533	471	-11.6%
Rytra UAB	251	146	-41.8 %
Tetas UAB	134	128	-4.48 %

At the end of 2008, RST employed 1,840 people, down by 317 compared with the end of 2007. Amid optimisation of the management structure and introduction of modern technologies, the number of workers is gradually reduced while the number of qualified specialists is on the rise. Managers and specialists account for 4/5 of all employees. Over six years of the Company's existence, the number of workers decreased 5-fold.
Every year, the Company is joined by young and promising people with or seeking higher education. Students who have interned with the Company often join the Company's team.

RST employees by category

Category of employees	Number of employees		Change
	End of 2007	End of 2008	
Managers	282	232	-17.7%
Specialists	1,414	1,244	-12.0%
Workers	461	364	-21.0%
All employees	2,157	1,840	-14.6%

Following changes in the country's labour market, RST has increased salaries and allocated funds for staff incentives. Funds are also allocated for endowment insurance of employees and accident insurance of persons at high occupational risk.

Average salary of RST employees

Category of employees	Average gross salary		Change
	2007	2008	
Managers and specialists	2,933	3,322	13%
Workers	1,940	2,250	16%
All employees	2,711	3,089	14%

RST employees with higher or post-secondary education account for over 4/5 of all employees.
In the past five years, the number of the Company's employees with higher education grew from 21% to 47%. RST supports employees aspiring to higher or post-secondary education by giving them holidays with pay for studying or by paying for their studies under tripartite agreements among the Company, educational establishments and employees.

Distribution of RST employees by education

Education	Number of employees			
	End of 2007		End of 2008	
Higher	925	43%	866	47%
Post-secondary	769	36%	619	33.6 %
Secondary	433	20%	349	19 %
Other	30	1%	6	0.3 %

Special rights of the issuer's employees set out in the collective agreement

The main social protection of RST employees is provided for in the collective agreement, which is updated every two years. The collective agreement specifies a scheme of remuneration for work of RST employees, working, economic and social conditions as well as additional guarantees applicable to employees (allowances in case of accidents, illnesses, death of family members, childbirth allowance and anniversary allowance, additional holidays with pay in case of birth of a child, marriage, death of a family member and in other cases, higher remuneration for work on non-working days (off-schedule work) than stipulated in the labour Code, annual pay rises considering the rate of inflation, bonuses based on the Company's profit, etc.).

VI. PUBLIC DISCLOSURES

In implementing its duties according to the binding legislation that regulates the securities market, RST announces material events (as well as all further regulated information) for the whole of the European Union. Information published by the Company is available on its website www.rst.lt and the website of NASDAQ OMX Vilnius AB at www.baltic.omxgroup.com.

Events of major importance after the end of the financial year 2008

On 1 January 2009, a new procedure of RST electricity prices and tariffs and their application approved by an independent decision of the National Control Commission for Prices and Energy came into force.

On 2 March 2009, the Constitutional Court of the Republic of Lithuania passed a ruling in the case on the compliance with the Constitution of the Republic of Lithuania of the provisions of Articles 8, 10 and 11 of the Law on the nuclear power plant and of Article 19 of the Law on the management and use of and access to assets of the State and municipalities.
The Constitutional Court ruled that Article 8(1) of the Law on the nuclear power plant (28 June 2007 edition), which lays down legal regulation, would not ensure the objective of the Law, i.e. to create financial preconditions for the implementation of a new nuclear power plant construction project, and contradicted Article 46(3) of the Constitution.
The Constitutional Court did not find any other provisions as contradicting the Constitution of the Republic of Lithuania.

In 2008, RST published the following information on material events:

23.01.2008. Decision of the Board of Rytų Skirstomieji Tinklai AB

On 23 January 2008, the Board of Rytų Skirstomieji Tinklai AB passed the decision to renew for 2008, at the expense of the Company, the benefit for farmers who receive electricity from low voltage networks (only to apply the capacity charge in August, September and October).

04.02.2008. Regarding the Law amending the Law on the nuclear power plant

On 1 February 2008, the Parliament of the Republic of Lithuania passed the Law amending Articles 8, 10, 11 and 20 of the Law on the nuclear power plant, which provides for the establishment of the national investor on the basis of a new parent company by way of a transfer of the block of Rytų Skirstomieji Tinklai AB shares (or a part thereof) owned by the State to the new parent company.

13.02.2008. Regarding the signature of the Law amending the Law on the nuclear power plant

On 11 February 2008, the President of the Republic of Lithuania signed the Law amending and supplementing Articles 8, 10, 11 and 20 of the Law on the nuclear power plant passed by the Parliament of the Republic of Lithuania on 1 February 2008, which provides for the establishment of the national investor on the basis of a new parent company by way of a transfer of the block of Rytų Skirstomieji Tinklai AB shares (or a part thereof) owned by the State to the new parent company.

26.02.2008. Preliminary consolidated unaudited operating result for 2007 of the group of companies of Rytų Skirstomieji Tinklai AB

The preliminary consolidated unaudited operating result for 2007 of the group of companies of Rytų Skirstomieji Tinklai AB (hereinafter ‘the RST Group’), according to the International Financial Reporting Standards, was as follows:
- net profit was LTL 32.5 mln (EUR 9.42 mln), i.e. up by 31 pct from LTL 24.8 mln (EUR 7.19 mln) in 2006. The higher than expected profit of the Group in 2007 was influenced by a 4-pct increase in electricity sales;
- profit before tax made up LTL 39.1 mln (EUR 11.34 mln), i.e. was by 30.8 pct higher than in 2006 when it amounted to LTL 29.9 mln (EUR 8.67 mln);
- operating revenue equalled LTL 1 068 mln (EUR 309.57 mln), i.e. up by 14.4 pct from 2006 when it was LTL 933.8 mln (EUR 270.67 mln);

- investments of the RST Group made up LTL 273 mln (EUR 79.13 mln), i.e. they were by 30.6 pct higher from LTL 209 mln (EUR 60.58 mln) in 2006. The higher than expected utilisation of investment funds was determined by a 39-pct increase (compared to 2006) in the number of new users connected to the power grid.

05.03.2008. Rytų Skirstomieji Tinklai AB investment plans for 2008

In 2008, Rytų Skirstomieji Tinklai AB plans to allocate LTL 248 mln (EUR 71.9 mln) for investments, of which as many as three fourths will be designated for investments into the distribution network.

13.03.2008. Regular general meeting of shareholders of Rytų Skirstomieji Tinklai AB

On the initiatives of the Board of Rytų Skirstomieji Tinklai AB, it was decided to call a regular general meeting of shareholders of Rytų Skirstomieji Tinklai AB on 15 April 2008, at 10.00 a.m., at P. Lukšio St. 5B, Vilnius.

The agenda of the general meeting of shareholders:
1. Presentation of the 2007 consolidated annual report of the Group.
2. Presentation of the conclusions of the external auditor.
3. Approval of the Company's financial statements for 2007.
4. Approval of the consolidated financial statements for 2007 of the Company and its subsidiaries.
5. Appropriation of the Company's 2007 profit (loss).
6. Election of the audit company and establishment of the payment terms for audit services.

Attendance registration is from 9.00 a.m. to 9.50 a.m. on 15 April 2008.
The record date for the general meeting of shareholders is 8 April 2008.
Upon arrival at the general meeting, shareholders must present an identity document. Shareholders' proxies must have an additional power of attorney certified under the procedure prescribed by the law.

14.03.2008. The Board of Rytų Skirstomieji Tinklai AB approved the results of valuation of the Company's tangible non-current assets

The Board of Rytų Skirstomieji Tinklai AB approved the results of valuation of the Company's tangible non-current assets carried out by the independent property appraiser, Matininkai Corporation UAB, and their incorporation in the Company's accounts. As of 31.12.2007, the Company's estimated tangible non-current assets were LTL 3.48 bln, i.e. up by 1.4 times compared to the book value as of 31.12.2007.

07.04.2008. Decision of the Board of Rytų Skirstomieji Tinklai AB

On 4 April 2008, the RST Board took the decision to approve and submit to the regular general meeting of shareholders the consolidated annual report of the Company and the audited financial statements for 2007 of the Company and the Group, prepared according to the International Financial Reporting Standards.

In 2007, the Company's revenues made up LTL 1 070.6 mln (EUR 310.32 mln), profit before tax was LTL 91.3 mln (EUR 26.46 mln) and net profit amounted to LTL 72.8 mln (EUR 21.1 mln).
In 2007, the Group's revenues made up LTL 1 068 mln (EUR 309.57 mln), profit before tax was LTL 93.8 mln (EUR 27.19 mln) and net profit amounted to LTL 74.3 mln (EUR 21.54 mln).

The audited profit before tax for 2007 of the Company and the Group increased by LTL 49.1 mln (EUR 14.23 mln), while net profit went up by LTL 41.8 mln (EUR 12.12 mln), compared to the Group's preliminary net profit of LTL 32.5 mln (EUR 9.42 mln) and the pre-tax profit of LTL 39.1 mln (EUR 11.34 mln) announced on 26 February 2008. The major reason for the increase was the decision of the Company's Board to account for the increase in the value of assets as of 31 December 2007. Revaluation of assets influenced the increase of the Company's tangible non-current assets by 1.4 times from LTL 2.43 bln (EUR 0.7 bln) to LTL 3.48 bln (EUR 1 bln). As the value of revalued assets had increased, the negative asset revaluation result accounted for in 2004 was partially restored.

The Board of the Company has proposed to the general meeting of shareholders to allocate LTL 12.3 mln (EUR 3.57 mln) worth of dividends from the Company's 2007 profit available for appropriation, i.e. a dividend of LTL 0.025 (EUR 0.007) per share.

Documents related to the agenda of the meeting are available to the shareholders from 7 April 2008 on the Company's website www.rst.lt ant the website of the Vilnius Stock Exchange at www.baltic.omxgroup.com.

10.04.2008. Regarding media information on non-payment of dividends by Rytų Skirstomieji Tinklai AB

In response to the media reports of 9 April 2008, Rytų Skirstomieji Tinklai AB announces that the Board of the Company, as already reported on 4 April 2008, took the decision to propose the issue of dividend payment to the general meeting of shareholders. Presently, management of the Company has no other decisions taken on this issue. The Company does not have any further official information either.

15.04.2008. Regular general meeting of shareholders of Rytų Skirstomieji Tinklai AB failed to take place

In the absence of the quorum, the regular general meeting of shareholders of Rytų Skirstomieji Tinklai AB (hereinafter 'RST AB') failed to take place.

At its meeting of 15 April, the Government of the Republic of Lithuania decided to commit the Ministry of Economy (the manager of Rytų Skirstomieji Tinklai AB shares owned by the State) to authorise its proxy at the general meeting of shareholders of Rytų Skirstomieji Tinklai AB to vote for the resolution on the non-payment of dividends from the Company's 2007 profit available for appropriation.

18.04.2008. Adjourned regular general meeting of shareholders of Rytų Skirstomieji Tinklai AB

On 17 April 2007, the Board of Rytų Skirstomieji Tinklai AB took the decision, on the grounds of the absence of the quorum at the regular general meeting of shareholders of 15 April 2008, to call an adjourned general meeting of shareholders of Rytų Skirstomieji Tinklai AB on 28 April 2008, at 10.00 a.m., at the same address (P. Lukšio St. 5B, Vilnius) and with the same agenda.

Attendance registration is from 9.00 a.m. to 9.50 a.m. on 28 April 2008.
The record date for the adjourned general meeting of shareholders is 21 April 2008.

Upon arrival at the adjourned general meeting, shareholders must present an identity document. Shareholders' proxies must have an additional power of attorney certified under the procedure prescribed by the law.

28.04.2008. Adjourned regular general meeting of shareholders took place

RESOLVED:
I. To approve the 2007 financial statements of Rytų Skirstomieji Tinklai AB.
II. To approve the 2007 consolidated financial statements of the Company and its subsidiaries.
III. To approve the appropriation of the Company's profit (loss) for 2007:

1. Retained profit (loss) brought forward from the previous financial year:	LTL 0 (EUR 0)
2. Current year net profit (loss):	LTL 72 831 892 (EUR 21 110 693)
3. Current year non-recognised profit (loss) in the Profit (Loss) Account:	LTL 102 165 627 (EUR 29 613 225)
4. Transfers from reserves:	LTL 0 (EUR 0)
5. Shareholders contributions against losses:	LTL 0 (EUR 0)
6. Total profit (loss) available for appropriation:	LTL 174 997 519 (EUR 50 723 919)
7. Appropriation of profit to legal reserves:	LTL 0 (EUR 0)
8. Appropriation of profit to reserves for acquisition of own shares:	LTL 0 (EUR 0)
9. Appropriation of profit to other reserves:	LTL 171 817 519 (EUR 49 802 179)
10. Appropriation of profit for dividends:	LTL 0 (EUR 0)
11. Appropriation of profit for annual payments (bonus shares) to members of the Board, employee bonuses and other purposes:	LTL 3 180 000 (EUR 921 739)
11.1. benefits:	LTL 700 000 (EUR 202 899)

11.2. bonus shares:	LTL 80 000 (EUR 23 188)
11.3. employee bonuses and other purposes:	LTL 2 400 000 (EUR 695 652)
12. Retained profit (loss) to be carried forward at the end of the current year:	LTL 0 (EUR 0)

IV. To elect the audit company, Nepriklausomas Auditas UAB, the auditor of the 2008-2009 financial statements of the public limited company Rytų Skirstomieji Tinklai and its subsidiaries and to set the price for the audit services at LTL 115 168 (EUR 33 382) (net of VAT) for 2008 and at LTL 115 168 (EUR 33 382) (net of VAT) for 2009.

29.04.2008. Preliminary unaudited operating result for Q1 2008 of the group of companies of Rytų Skirstomieji Tinklai AB

The preliminary unaudited operating result for Q1 2008 of the group of companies of Rytų Skirstomieji Tinklai AB, according to the International Financial Reporting Standards, was as follows:
- operating revenue was LTL 329 mln (EUR 95.4 mln), i.e. up by 16 pct, compared to Q1 2007 when it was LTL 283.5 mln (EUR 82.2 mln);
- profit before tax made up LTL 15.7 mln (EUR 4.6 mln), i.e. down by LTL 8.1 mln (EUR 2.3 mln) from LTL 23.8 mln (EUR 6.9 mln) in Q1 2007;
- net profit was LTL 13 mln (EUR 3.8 mln), i.e. down by LTL 6.1 mln (EUR 1,7 mln), compared to Q1 2007 when it amounted to LTL 19.1 mln (EUR 5.5 mln).

The major reason for the fall in profit was the accounting for the increase in the value of tangible non-current assets in the Company's accounts as of 31 December 2007, which significantly enlarged expenses.

28.05.2008. Signature of the Shareholder Agreement of LEO LT AB and increase of the share capital

On 27 May 2008, the Shareholder Agreement of the national investor company, LEO LT AB, was signed. Shortly thereafter, an extraordinary general meeting of shareholders of LEO LT AB took place, which took the decision to increase the share capital of LEO LT AB with asset contributions of the shareholders, including the Government of the Republic of Lithuania and NDX Energija UAB, in particular with the shares of Rytų Skirstomieji Tinklai AB, Lietuvos Energija AB and VST AB. Also, the Articles of Association of LEO LT AB, registered with the Commercial Register, were amended accordingly.

29.05.2008. Agendas of extraordinary general meetings of shareholders

On 28 May 2008, the Board of Rytų Skirstomieji Tinklai AB decided to call an extraordinary general meeting of shareholders on 30 June 2008 at 11.30 a.m., at P. Lukšio St. 5B, Vilnius.
The agenda of the extraordinary general meeting of shareholders:
1. Approval of the new version of the Company's Articles of Association.
2. Dissolution of the Company's Supervisory Board and revocation of the Company's Supervisory Board in operation.

Attendance registration is from 10.30 a.m. to 11.20 a.m. on 30 June 2008.
The record date for the general meeting of shareholders is 20 June 2008.
On 28 May 2008, the Board of Rytų Skirstomieji Tinklai AB decided to call an extraordinary general meeting of shareholders on 8 July 2008 at 2 p.m., at P. Lukšio St. 5B, Vilnius.
The agenda of the extraordinary general meeting of shareholders:
1. Revocation of the Board of the Company.
2. Election of the Board of the Company.

Attendance registration is from 1 p.m. to 1.50 p.m. on 8 July 2008.
The record date for the general meeting of shareholders is 30 June 2008.
Upon arrival at the general meeting, shareholders must present an identity document. Shareholders' proxies must have an additional power of attorney certified under the procedure prescribed by the law.

04.06.2008. Regarding the non-launch of the mandatory tender offer

This is to inform you that on 2 June 2008 the shareholder LEO LT AB, identification No 301732248, registered office at Žvejų St. 14A, Vilnius, Republic of Lithuania, which holds a controlling interest in the public limited company Rytų Skirstomieji Tinklai, announced its decision not to launch a mandatory tender offer for the purchase of the remaining voting shares of the public limited company Rytų Skirstomieji Tinklai, as the applicable laws of the Republic of Lithuania did not provide for such a requirement.

05.06.2008. Notification about the acquisition of a block of shares

On 2 June 2008, the public limited company Rytų Skirstomieji Tinklai received a notification of LEO LT AB on the acquisition of voting rights of the public limited company Rytų Skirstomieji Tinklai. The notification from LEO LT AB was concerned with the acquisition of voting shares by way of their transfer to LEO LT AB as an asset contribution.

10.06.2008. Notification about the loss of a block of shares

On 9 June 2008, Rytų Skirstomieji Tinklai AB received a notification of the Ministry of Economy of the Republic of Lithuania on the loss of voting rights of Rytų Skirstomieji Tinklai AB. The notification from the Ministry of Economy of the Republic of Lithuania was concerned with the loss of voting shares by way of their transfer to LEO LT AB as an asset contribution.

26.06.2008. Draft resolutions of the extraordinary general meeting of shareholders of 30 June

AGENDA ITEMS:
1. Approval of the new version of the Company's Articles of Association.
2. Dissolution of the Company's Supervisory Board and revocation of the Company's Supervisory Board in operation.

1. DISCUSSED:
Approval of the new version of the Company's Articles of Association.
RESOLVED:
1. To approve the new version of the Articles of Association of Rytų Skirstomieji Tinklai AB (attached).
2. To authorise Rimantas Milišauskas, General Manager of Rytų Skirstomieji Tinklai AB, to sign the new version of the amended Articles of Association of Rytų Skirstomieji Tinklai AB and to submit the same to the public establishment the Register Centre.

2. DISCUSSED:
Dissolution of the Company's Supervisory Board and revocation of the Company's Supervisory Board in operation.
RESOLVED:
1. To dissolve the Supervisory Board of the Company.
2. To revoke the Company's Supervisory Board in operation.

The agenda of the extraordinary general meeting of shareholders to be held on 30 June 2008 was approved by Resolution No 11 of the Board of Rytų Skirstomieji Tinklai AB of 28 May 2008, and the draft resolutions of the extraordinary general meeting of shareholders were discussed in the meeting of the Board of Rytų Skirstomieji Tinklai AB of 11 June 2008 (Minutes No 13).

27.06.2008. Agenda of the extraordinary meeting of shareholders of 08.07.2008 amended

On 20 June 2008, the Board of Rytų Skirstomieji Tinklai AB took the decision to amend the agenda of the extraordinary general meeting of shareholders of the Company to be held on 8 July 2008, by repealing the agenda of the meeting approved by Resolution No 12 of the Board of 28 May 2008, and to approve a new agenda as follows:
1. Revocation of the Company's Supervisory Board.
2. Election of the Company's Supervisory Board.

The extraordinary general meeting of shareholders will take place at 2 p.m., at P.Lukšio St. 5B, Vilnius.
Attendance registration is from 1 p.m. to 1.50 p.m. on 8 July 2008.
The record date for the general meeting of shareholders is 30 June 2008.
Upon arrival at the general meeting, shareholders must present an identity document. Shareholders' proxies must have an additional power of attorney certified under the procedure prescribed by the law.

28.06.2008. Draft resolutions of the extraordinary general meeting of shareholders of 8 July

AGENDA ITEMS:
Revocation of the Company's Supervisory Board.
Election of the Company's Supervisory Board.
RESOLVED:
1. To revoke the existing Supervisory Board of the Company, the authority of which will expire as from the beginning of operation of the new Supervisory Board of the Company.
2. To establish that the new Supervisory Board of the Company will begin its operations as from the date of the general meeting of shareholders of the Company that elected it.

The agenda of the extraordinary general meeting of shareholders to be held on 8 July 2008 was amended by Resolution No 17 of the Board of Rytų Skirstomieji Tinklai AB, and the draft resolutions of the extraordinary general meeting of shareholders were discussed in a meeting of the Board of Rytų Skirstomieji Tinklai AB of 20 June 2008 (Minutes No 17).

30.06.2008. Extraordinary general meeting of shareholders took place on 30 June 2008

The extraordinary general meeting of shareholders of Rytų Skirstomieji Tinklai AB (identification No 110870890) of 30 June 2008 passed the following resolutions:
1. To approve the new version of the Company's Articles of Association, to authorise Valdas Bancevičius, Acting General Manager of Rytų Skirstomieji Tinklai AB, to sign the new version of the Articles of Association of Rytų Skirstomieji Tinklai AB and to obligate Valdas Bancevičius, Acting General Manager of Rytų Skirstomieji Tinklai AB, or other authorised persons to have the amended Articles of Association registered under the procedure prescribed by the law and to perform all other actions related thereto.
2. Not to dissolve the Supervisory Board of the Company and not to revoke the Company's Supervisory Board in operation.

11.07.2008. Extraordinary general meeting of shareholders took place on 8 July 2008

The extraordinary general meeting of shareholders of Rytų Skirstomieji Tinklai AB, which took place at 2 p.m. on 8 July 2008, passed the following resolutions:
1. To revoke the existing Supervisory Board of Rytų Skirstomieji Tinklai AB and to establish that the authority thereof will expire as from the beginning of operation of the new Supervisory Board of Rytų Skirstomieji Tinklai AB.
2. To elect the following persons to the Supervisory Board of Rytų Skirstomieji Tinklai AB: Andrius Šimkus, Vidmantas Grušas, Algimantas Zaremba, Darius Kašauskas and Mario Nullmeier.
3. To establish that the new Supervisory Board of Rytų Skirstomieji Tinklai AB will begin its operations as from the date of the general meeting of shareholders of Rytų Skirstomieji Tinklai AB that elected it.
At 3 p.m. on the same date, a meeting of the Supervisory Board of Rytų Skirstomieji Tinklai AB took place, which passed the following resolutions:
1. To elect Andrius Šimkus Chairman of the Supervisory Board of Rytų Skirstomieji Tinklai AB.
2. To revoke the existing Supervisory Board of Rytų Skirstomieji Tinklai AB and to establish that the authority thereof will expire as from the beginning of operation of the new Supervisory Board of Rytų Skirstomieji Tinklai AB.
3. To elect the following persons to the Board of Rytų Skirstomieji Tinklai AB: Gintautas Mažeika, Valdas Bancevičius and Vytenis Kudinskas.
4. Not to elect a fourth member of the Board of Rytų Skirstomieji Tinklai AB.
5. To establish that the new Board of Rytų Skirstomieji Tinklai AB will begin its operations after the end of the meeting of the Supervisory Board of Rytų Skirstomieji Tinklai AB that elected the Board.
At 3.50 p.m. on the same date, a meeting of the Board of Rytų Skirstomieji Tinklai AB took place, which passed the following resolutions:
1. To elect Gintautas Mažeika Chairman of the Board of Rytų Skirstomieji Tinklai AB.
2. To revoke the General Manager of Rytų Skirstomieji Tinklai AB.
3. To elect Gintautas Mažeika the new General Manager of Rytų Skirstomieji Tinklai AB.

21.07.2008. Preliminary unaudited operating result for H1 2008 of the group of companies of Rytų Skirstomieji Tinklai AB

The preliminary unaudited operating result for H1 2008 of the group of companies of Rytų Skirstomieji Tinklai AB, according to the International Financial Reporting Standards, was as follows:
- operating revenue was LTL 603.3 mln (EUR 174.9 mln), i.e. up by 14.9 pct, compared to H1 2007 when it made up LTL 525.1 mln (EUR 152.2 mln);
- profit before tax made up LTL 10.8 mln (EUR 3.1 mln), i.e. down by LTL 21.2 mln (EUR 6.1 mln) from LTL 32 mln (EUR 9.28 mln) in H1 2007;
- net profit amounted to LTL 8.4 mln (EUR 2.4 mln), i.e. down by LTL 17.7 mln (EUR 5.1 mln), compared to H1 2007 when it was LTL 26.1 mln (EUR 7.57 mln).

The major reason for the fall in profit was the accounting for the increase in the value of tangible non-current assets in the Company's accounts as of 31 December 2007, which significantly enlarged expenses.

29.09.2008. Court granted the application of RST for accepting for examination the Company's complaint regarding the methods of calculating electricity prices

The public limited company Rytų Skirstomieji Tinklai filed an application to the Vilnius District Administrative Court for obligating the National Control Commission for Prices and Energy to perform actions assigned to its competence, in particular to agree with the Ministry of Economy of the Republic of Lithuania the draft amendments to the Methodology of setting electricity transmission and distribution prices and price caps and to the Methodology of setting public electricity and public supply services prices and price caps.
RST also applied to the court for the application of a remedy, in particular to prohibit the National Control Commission for Prices and Energy, on a temporary basis and pending the ruling of the court on the binding effect of the complaint of Rytų Skirstomieji Tinklai AB, from taking decisions on the amendments to the Methodology of setting electricity transmission and distribution prices and price caps and to the Methodology of setting public electricity and public supply services prices and price caps.
On 29 September 2008, the Vilnius District Administrative Court ruled to accept the complaint of Rytų Skirstomieji Tinklai AB and to apply the above remedy.

02.10.2008. Resolution of the Parliament of the Republic of Lithuania entered into force

On 02.10.2008, the Resolution of the Parliament of the Republic of Lithuania on the application to the Constitutional Court of the Republic of Lithuania for examining whether the Law amending and supplementing Articles 8, 10, 11 and 20 of the Law on the nuclear power plant of the Republic of Lithuania complies with the Constitution of the Republic of Lithuania.

29.10.2008. Preliminary unaudited operating result for Q1-Q3 2008 of the group of companies of Rytų Skirstomieji Tinklai AB

According to the International Financial Reporting Standards, the preliminary unaudited operating result for Q1-Q3 2008 of the group of companies of Rytų Skirstomieji Tinklai AB was a loss of LTL 47.7 mln (EUR 13.8 mln).
Total revenue of the Group in the first three quarters of 2008 made up LTL 877.8 mln (EUR 254.2 mln).

29.10.2008. Decision to call an extraordinary general meeting of shareholders of Rytų Skirstomieji Tinklai AB on 2 December 2008 was taken on the initiative of the Board

It was decided, on the initiative of the Board, to call an extraordinary general meeting of shareholders of Rytų Skirstomieji Tinklai AB on 2 December 2008 at 10 a.m., at P. Lukšio St. 5B, Vilnius.
The agenda of the extraordinary general meeting of shareholders:
1. Revocation of the audit company.
2. Election of a new audit company and establishment of the payment terms for audit services.
Attendance registration is from 9 a.m. to 9.50 a.m. on 2 December 2008.
The record date for the extraordinary general meeting of shareholders is 25 November 2008.
Upon arrival at the extraordinary general meeting, shareholders must present an identity document. Shareholders' proxies must have an additional power of attorney certified under the procedure prescribed by the law.
A motion will be made for shareholders to approve the following draft resolution:
1. Agenda item 'Revocation of the audit company'.
To revoke the audit company, Nepriklausomas Auditas UAB, elected the auditor of the 2008-2009 financial statements of the public limited company Rytų Skirstomieji Tinklai and its subsidiaries at the adjourned general meeting of shareholders of 28 April 2008.
2. Agenda item "Election of a new audit company and establishment of the payment terms for audit services'.
2.1. To elect the audit company, Ernst & Young Baltic UAB (identification No 110878442), the auditor of the 2008 consolidated financial statements of the public limited company Rytų Skirstomieji Tinklai and its subsidiaries and of the financial statements of the public limited company Rytų Skirstomieji Tinklai, and to set the price for the audit services at LTL 153 400 incl. VAT for 2008.

31.10.2008. The National Control Commission for Prices and Energy adjusted RST distribution and public supply services price caps for 2009

On 31 October 2008, the National Control Commission for Prices and Energy (NCC) adjusted the price caps for the distribution and public supply services of the public limited company Rytų Skirstomieji Tinklai (RST) for 2009:
- for distribution services in medium-voltage networks, 7.29 ct/kWh (2.11 Euro cents/kWh), which in 2008 were 7.20 ct/kWh (2.09 Euro cents/kWh);

- for distribution services in low-voltage networks, 11.09 ct/kWh (3.21 Euro cents/kWh), which in 2008 were 11.1 ct/kWh (3.21 Euro cents/kWh);
- for public supply services, 0.21 ct/kWh (0.06 Euro cents/kWh), which in 2008 were 0.21 ct/kWh (0.06 Euro cents/kWh).

More detailed information is available on the NCC website www.regula.lt.

On 31 October 2008, the RST Board approved electricity prices and tariffs and the procedure of their application for 2009, and has submitted them to the NCC. As from 1 January 2009, the electricity price is expected to increase by 5.93 ct/kWh (net of VAT) for residents and by 5.5 ct/kWh (net of VAT) for companies and organisations on average. Final prices and tariffs and the procedure of their application are announced by the NCC under the procedure prescribed by the law. Distribution service prices and tariffs and public electricity prices and tariffs come into force one month after their publication.

27.11.2008. Discussion on RST AB electricity prices and tariffs and the procedure of their application postponed

The meeting of the National Control Commission for Prices and Energy decided to postpone the discussion on electricity prices and tariffs and the procedure of their application of the public limited company Rytų Skirstomieji Tinklai approved by the decision of the Board of Rytų Skirstomieji Tinklai AB.

More detailed information is available on the NCC website www.regula.lt.

28.11.2008. Interim information for Q1-Q3 2008 of Rytų Skirstomieji Tinklai AB

Rytų Skirstomieji Tinklai AB presented interim information for Q1-Q3 2008 and the acknowledgement of responsible persons.

02.12.2008. Resolutions of the extraordinary general meeting of shareholders

The extraordinary general meeting of shareholders of the public limited company Rytų Skirstomieji Tinklai, which took place at 10 a.m. on 2 December 2008, passed the following resolutions:

1. To revoke the audit company, Nepriklausomas Auditas UAB, elected the auditor of the 2008-2009 financial statements of the public limited company Rytų Skirstomieji Tinklai and its subsidiaries at the adjourned general meeting of shareholders of 28 April 2008.
2. To elect the audit company, Ernst & Young Baltic UAB (identification No 110878442), the auditor of the 2008 consolidated financial statements of the public limited company Rytų Skirstomieji Tinklai and its subsidiaries and of the financial statements of the public limited company Rytų Skirstomieji Tinklai, and to set the price for the audit services at LTL 153 400 incl. VAT for 2008.

04.12.2008. Rytų Skirstomieji Tinklai AB applied to the Supreme Administrative Court of Lithuania

On 3 December 2008, the public limited company Rytų Skirstomieji Tinklai filed an application to the Supreme Administrative Court of Lithuania for acceptance of the waiver of the complaint regarding the lawfulness and expediency of the refusal of a public authority to perform actions assigned to the competence thereof, with respect to the Respondent, the National Control Commission for Prices and Energy, for the closing of the case and repealing the remedies applied under the order of the Vilnius District Administrative Court of 29 September 2008.

04.12.2008. Public limited company Rytų Skirstomieji Tinklai increases effectiveness of operational processes

The public limited company Rytų Skirstomieji Tinklai (RST) intends to reduce costs by about LTL 12 mln in 2008 and by another LTL 40 mln in the following year. RST costs are to be minimised by increasing the effectiveness of performance: restructuring of the Company will be carried out, as from September 2008 the employment relationship will be terminated with more than 300 employees by agreement between the parties and procurement procedures will be improved.

04.12.2008. Meeting of the Supervisory Board of Rytų Skirstomieji Tinklai AB

The meeting of the Supervisory Board of Rytų Skirstomieji Tinklai AB (hereinafter ‘the Company’), which took place on 4 December 2008, passed the following resolutions:

1. To revoke the Board of the Company *in corpore*.
2. To elect the following persons to the Board of the Company for the remaining term of office of the Board that ceased its duties: Virgilijus Žukauskas, Vytenis Kudinskas, Laimutė Milašauskienė and Rimantas Vaitkus.
3. To establish that the newly elected Board of the Company will commence operations thereof after the end of the meeting of the Company’s Supervisory Board which elected the Board.

At 10.30 a.m. on the same date (4 December), a meeting of the Board of the Company took place which passed the following resolutions:

1. To elect Rimantas Vaitkus Chairman of the Board of the Company.
2) To elect Rimantas Vaitkus General Manager of the Company.

04.12.2008. Next year the amount of the projected RST investments may amount to about LTL 180 mln

Rytų Skirstomieji Tinklai AB (RST) has confirmed the information on the projected RST investments for 2009 provided by Gintautas Mažeika, Chairman of the Board of LEO LT, at a press conference on 4 December 2008.

Next year the amount of the projected RST investments may amount to about LTL 180 mln. At present the RST investment programme is being subjected to a review.

18.12.2008. Press release of the Ministry of Economy on tariffs

The Ministry of Economy has reported that yesterday it applied to LEO LT AB for obligating the public limited companies Lietuvos Energija, VST and Rytų Skirstomieji Tinklai to review the electricity transmission and distribution services and public electricity tariffs previously approved by the Boards of those companies, and to submit them to the National Control Commission for Prices and Energy for publication. In reviewing the tariffs for 2009, the Ministry of Economy proposed to leave the 2008 level of prices set for electricity transmission (transmission and distribution) and to adjust public tariffs for users so that the average public electricity price of the public limited company Rytų Skirstomieji Tinklai in medium-voltage networks makes up about 25.8 ct/kWh and in low-voltage networks which sell power to residents is 32.31 ct/kWh, and of the public limited company VST the price is 25.81 ct/kWh and 33.47 ct/kWh, respectively. In this case the final electricity price for domestic users would increase by about 3 ct/kWh.

19.12.2008. Press release of the Ministry of Economy on tariffs (correction)

The Ministry of Economy has issued a correction that the average public electricity price of the public limited company Rytų Skirstomieji Tinklai in medium-voltage networks would make up about 25.08 ct/kWh.

The Ministry of Economy has reported that yesterday it applied to LEO LT AB for obligating the public limited companies Lietuvos Energija, VST and Rytų Skirstomieji Tinklai to review the electricity transmission and distribution services and public electricity tariffs previously approved by the Boards of those companies, and to submit them to the National Control Commission for Prices and Energy for publication. In reviewing the tariffs for 2009, the Ministry of Economy proposed to leave the 2008 level of prices set for electricity transmission (transmission and distribution) and to adjust public tariffs for users so that the average public electricity price of the public limited company Rytų Skirstomieji Tinklai in medium-voltage networks makes up about 25.08 ct/kWh and in low-voltage networks which sell power to residents is 32.31 ct/kWh, and of the public limited company VST the price is 25.81 ct/kWh and 33.47 ct/kWh, respectively. In this case the final electricity price for domestic users would increase by about 3 ct/kWh.

23.12.2008. Rytų Skirstomieji Tinklai AB confirms information contained in the 23.12.2008 press release of LEO LT AB

Rytų Skirstomieji Tinklai AB confirms information contained in the 23.12.2008 press release of LEO LT AB that, following the consultations of 23 December 2008 with the Ministry of Economy and the National Control Commission for Prices and Energy, the managers of LEO LT AB and its subsidiaries, in including the public limited company Rytų Skirstomieji Tinklai, Lietuvos Energija AB and VST, proposed to the National Control Commission for Prices and Energy to exercise the right available to the Commission and to set electricity transmission and distribution tariffs for 2009 independently.

2008.12.29 Decision taken by the National Control Commission for Prices and Energy

The meeting of the National Control Commission for Prices and Energy of 29 December 2008 took the decision to set independently and publish the electricity prices and tariffs of Rytų Skirstomieji Tinklai AB and the procedure of their application. As from 1 January 2009, the electricity price for residents will increase by 3 ct/kWh incl. 18-pct VAT or by 4 ct/kWh incl. 19-pct VAT.

The price for enterprises and organisations that receive electricity from medium-voltage networks will increase by 2.6 ct/kWh (net of VAT) and for those that receive electricity from low-voltage networks it will go up by 2.8 ct/kWh (net of VAT).

More detailed information is available on the website of the National Control Commission for Prices and Energy at www.regula.lt.

Other public disclosures

In 2008, RST published reports on investment projects implemented in the power distribution network. Information was released on projects that required the largest investments. The Company informed the public about the reconstructed transformer substations in Verkiai and Baltupiai and the increased reliability of the power supply to the Santariškės Clinic. RST reported on the completion of the project 'Modernisation of Anykščiai District Power Distribution Networks and Related Infrastructure by Enhancing Reliability and Safety of Power Supply' co-financed by the European Union.

RST informed its clients about the enlargement of the network of payment sites to include newsstands of Lietuvos Spauda. Users were also offered the opportunity to pay for electivity at the Perlas lottery terminals.

In 2008, the Company published reports on the increasing number of thefts from the power distribution network, but the Company also announced that they would make efforts to prevent crime and reduce the number of thefts. The public was informed about a few successful operations in preventing such crime.

Information on changes in the Company in 2008 was published which in particular included the change of the major shareholder, changes in management and the organisation, newly created departments and projected performance results.

Rimantas Vaitkus
General Manager

6 March 2009

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

Pursuant to Article 21.3 of the Law on Securities of the Republic of Lithuania and Paragraph 20.5 of the Trading Rules of the Public Company Vilnius Stock Exchange, the public company Rytų Skirstomieji Tinklai AB notifies in the present report about its compliance with the Governance Code of Companies listed on the Regulated Market, as approved by the Vilnius Stock Exchange (VSE), and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES / NO / NOT APPLICABLE	COMMENT

Principle I: Basic Provisions

The main objective of the company should be satisfaction of the interests of all shareholders by ensuring a continuous optimisation of shareholder value.

1.1. A company should adopt and make public company's development strategy and objectives by openly declaring the ways in which it intends to meet the interests of the shareholders and optimize shareholder value.	Yes	The main development directions and strategy of the Company are made public on the Company's website and the Company's annual report.
1.2. All bodies of a company should focus on the attainment of the strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's board of directors make the most important strategic decisions affecting the optimisation of shareholder value (improving the Company's functions and its structure, as well as performing other actions contributing to the Company's business efficiency and reduction of costs).
1.3. A company's supervisory and governance bodies should act in close co-operation in order to attain the maximum benefit for the company and its shareholders.	Yes	The Company has the supervisory board, the board of directors and the chief executive officer. These bodies co-operate in order to attain the maximum benefit for the Company and its shareholders. The Company's director general is the chairperson of the Company's board of directors.
1.4. A company's supervisory and governance 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 bodies of the Company respect the rights and interests of persons involved in or related to the Company's operation: 1. Since the date of the Company's establishment, the Company has cooperated and maintained social partnership with the representatives of the Company employees (allocating funds for implementing a collective agreement and offering incentives for employees, etc.). 2. The Company fulfils its financial and other commitments assumed under the

		borrowing programme approved by the Company's board of directors. 3. The Company takes measures for improving services provided to electricity consumers and other persons (development of customer service channels on the Internet (through the Company's website) and by telephone (introducing a short dial number and a contact centre), as well as ensuring a better customer service at the Company's structural units).

Principle II: The Corporate Governance Framework

The corporate governance framework should ensure a strategic management of the company, an effective oversight of the company's governance bodies, an appropriate balance and distribution of functions among the bodies of the company, and protection of the shareholders' interests.

2.1. Apart from the mandatory bodies provided for in the Law on Companies of the Republic of Lithuania, i.e. the general shareholders' meeting and the chief executive officer, the company is also recommended to set up a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management ensures a 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, determines a more efficient and transparent management process of the company.	Yes	Pursuant to the Articles of Association of the Company approved by the general shareholders' meeting on 30 June 2008, the bodies of the Company include the following: the general shareholders' meeting, the supervisory board and the chief executive officer.
2.2. A collegial management body is responsible for the strategic management of the company and performs the other key functions of corporate governance. A collegial supervisory body is responsible for an effective supervision of the company's governance bodies.	Yes	Pursuant to Article 23 of the Articles of Association of the Company, the Company's supervisory board is responsible for an effective supervision of the Company's governance bodies. Pursuant to Article 39 of the Articles of Association of the Company, the Company's board of directors runs the Company (analyses, considers and assesses the Company's performance and circumstances of its operation, plans the Company's activities and makes all the key corporate governance decisions and controls the Company's operation).
2.3. If a company decides to set up only one collegial body, it is recommended to be	Not applicable	The Company sets up both the supervisory board and the board of

a supervisory body, i.e. the supervisory board. In this case, the supervisory board takes responsibility for an effective monitoring of the functions performed by the company's chief executive officer.		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 prescribed in Principles III and IV. Where, instead of a collegial supervisory body, a company decides to set up a collegial management body, i.e. the board or directors, Principles III and IV should apply to the board of directors as long as it is in line with the nature and purpose of this body.	Yes/No	The Company is not fully compliant with the recommendations laid down under Principles III and IV, yet the Company meets all the requirements for setting up a supervisory collegial body provided for in the legislation. Admittedly, the Company carries out electricity distribution and supply and therefore its operation is strictly regulated by the legislation and monitored by appropriate state bodies (National Control Commission for Prices and Energy, etc.). This practice ensures transparency and effectiveness of decision-making, as well as implementation of the principles of non-discrimination of the Company's consumers and saving its costs.
2.6. Non-executive directors or members of the supervisory board should be appointed for a defined time period subject to an individual re-election and within the maximum intervals provided for in the legislation of the Republic of Lithuania with a view to ensuring a necessary development of their professional experience and a sufficiently frequent reconfirmation of their status. A possibility for removal should also be regulated, yet the procedure should be as strict as the removal of an executive director or a member of the management board.	Yes	The Company's supervisory board is elected for a term of 4 years. The duration of the term of office for members of the supervisory board is the maximum provided for in the Law on Companies of the Republic of Lithuania. The general shareholders' meeting is entitled to recall both the whole supervisory board and its individual members prior to the expiry of their term of office.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose currently or formerly held position constitutes no obstacle to conduct an independent and impartial supervision. Where a company decides to set up a board of directors instead of a supervisory board, it is recommended that the chairman of the board and the chief executive officer of the company should be different persons. A former chief executive officer of the company should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. If a company decides not to comply with this recommendation, it should furnish	Yes	The position of a member of the supervisory board cannot be taken by the chief executive officer or a member of the board of directors of the Company, the parent company or a subsidiary, or any other individual who is not allowed to take this position under the laws. The Company complies with these provisions (chairperson or members of the supervisory board of the Company have never been members of the board of directors or the Company's chief executive officer).

information about the measures it has taken to ensure the impartiality of supervision.		

Principle III: The Procedure of Setting-Up a Collegial Body to be elected by the General Shareholders' Meeting

The procedure of setting up a collegial body to be elected by the general shareholders' meeting should ensure representation of the interests of minority shareholders, the body's accountability to the shareholders and an objective supervision of the company's operation and its governance bodies.

3.1. The mechanism of setting up a collegial body to be elected by the general shareholders' meeting (hereinafter referred to in this Principle as the collegial body) should ensure a objective and impartial supervision of the company's governance bodies, as well as proper representation of small shareholders' interests.	Yes	Pursuant to Article 29 of the Articles of Association of the Company, every candidate to become a member of the supervisory board must submit to the general shareholders' meeting a candidate's declaration of interests specifying in it all the circumstances which may constitute a conflict between the candidate's and the Company's interests.
3.2. The names of candidates to become members of the collegial body, as well as the information about their education background, qualification, professional experience, present position, other important professional commitments and potential conflict of interests should be disclosed to the company's shareholders prior to the general shareholders' meeting, giving the shareholders enough time to make an informed voting decision. Any other circumstances which may have an impact on the candidate's independence (a model list thereof is provided in Recommendation 3.7) should also be revealed. The collegial body should be informed about any subsequent changes in the information provided under the paragraph herein. The collegial body should, on the annual basis, collect data specified in the paragraph herein about its members and include them in the company's annual report.	Yes/No	Currently, the Company does not fully comply with the recommendation. The information about the positions presently held by members of the supervisory board and their participation in the activities of other companies is regularly collected, stored and presented in the Company's annual report and website. The information about the candidates to the position of members of the collegial body is usually provided to shareholders during the general shareholders' meeting.
3.3. The nomination of a member to the collegial body should be followed by the information about the candidate's competences directly related to his position in the collegial body. For shareholders and investors to assess if these competences are still relevant, the collegial body should publish the information about the composition of the collegial body and	Yes	The shareholders' meeting provides information about the work experience, current positions, competences and other relevant information about the candidates to become members of the supervisory board. The annual report provides information about the composition of the supervisory board and the positions held by its

competences of its individual members directly related to their position in the collegial body in the company's annual report.		members.
3.4. Seeking to maintain a proper balance between the qualifications of the members of the collegial body, the collegial body should establish the desired composition, taking into account the company's structure and the type of operation as well as ensuring its regular assessment. The collegial body should ensure that its members, taken as a whole, should have the required diversity of knowledge, opinion and experience for a proper performance of their tasks. The members of the audit committee, taken as a whole, should have up-to-date knowledge and relevant experience in the areas of finance, accounting and/or audit of listed companies.	No	Pursuant to the Law on Companies of the Republic of Lithuania, the supervisory board is elected and its qualifications are assessed by the general shareholders' meeting. The supervisory board cannot decide on its composition. Admittedly, the main activity of the Company is the distribution and supply of electricity, and the majority of the members of the supervisory board are experts in the energy sector. With regard to the audit committee, see comment made to paragraph 4.14 herein.
3.5. All the new members of the collegial body should be offered a tailored programme to learn about their position, the company's organisation and operation. The collegial body should carry out an annual review to identify the fields in which its members need to update their skills and knowledge.	Yes/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 to learn about their position, the company's organisation and operation. Admittedly, members of the supervisory board are regularly informed about the Company's operation during the meetings of the supervisory board and individually, as requested by the members.
3.6. Seeking to ensure that all the material conflicts of interest related to a member of the collegial body are solved properly, the collegial body should consist of a sufficient number of independent members.	No	The Articles of Association of the Company do not specify that supervisory board should consist of a certain number of independent members. The composition of the supervisory board (as well as election of independent members to the supervisory board) falls within the remit of competence of the general shareholders' meeting.
3.7. A member of the collegial body should be considered independent only when he/she has no business, family or other relations with the company, its controlling shareholder or their management, which causes or may cause a conflict of interest and which may affect the member's opinion Since it is impossible to foresee all the possible cases when a member of the	No	The Company's supervisory board has not established any specific criteria for the assessment of the level of independence, because no need for that has been identified. See also comments made to paragraph 3.6 herein.

collegial body may become dependant and since different companies have different relations and circumstances related to the establishment of independence and the best practices of solving the problem develop in the long run, the assessment of independence of the member of the collegial body should be based on the content, rather than the form, of relations and circumstances. The main criteria for establishing the independence of a member of the collegial body should include the following: 1) he/she cannot be an executive director or a member of the board of directors (if the collegial body elected by the general shareholders' meeting is a supervisory board) of the company or any other related company and has not held such positions in the last five years; 2) he/she cannot be an employee of the company or a related company and has not held such position in the last three years, except where a member of the collegial body is not in a senior position and has been nominated to the collegial body as a representative of employees; 3) he/she cannot receive or have received any significant additional remuneration from the company or a related company, except for the remuneration received for holding the position of a member of the collegial body. Additional remuneration also includes participation in share options or any other performance-based pay systems. Additional remuneration does not include compensation payments (including deferred compensations) under a pension plan for any previous position in the company (provided that such payments are not in a any way related to any subsequent positions); 4) he/she cannot be a controlling shareholder or cannot represent such shareholder (the control is established in line with Article 1(1) of Council Directive 83/349/EEC); 5) he/she cannot have and, in the recent years, cannot have had any important business relations with the company or related company, either directly or indirectly as partner, shareholder, director or superior. A subject with important business relations shall be		

considered a major supplier or a service provider (including financial, legal, advisory and consultancy services), a major client or an organisation receiving significant payments from the company or its group; 6) He/she cannot be or, in the recent three years, have been a partner or employee of the current or former external auditor of the company; 7) He/she cannot be an executive director or a member of the board of directors in another company where the company's executive director or a member of the board of directors (if the collegial body elected by the general shareholders' meeting is a supervisory board) is a non-executive director or a member of the supervisory board. He/she cannot have any material relations with the company's executive directors which arise out of participation in the activities of other companies or bodies; 8) He/sje cannot have held a position of a member of a collegial body for over 12 years; 9) He/she cannot be a close family member of the executive director or a member of the board of directors (if a collegial body elected by the general shareholders' meeting is a supervisory board), or a close family member of any persons specified in paragraphs 1-8 above. A close family member shall include a spouse (cohabitant), children and parents. 3.8. The content of the concept of independence shall be established by the collegial body. The collegial body may decide that although a concrete member thereof complies with all the criteria of independence specified in the present code, he/she cannot be deemed independent due to some special personal or company-related circumstances.		
3.9. The relevant information about the conclusions made by the collegial body in determining if a concrete member thereof may be deemed independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should inform if it considers the person to be independent. If a concrete member of the collegial body does not meet one or several criteria of independence	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 made public so far in relation to the assessment of independence of the members of the supervisory board.

established in the present code, the company should announce the reasons why it considers the member independent. Furthermore, the company should announce, in its annual report, the members of the collegial board which it considers independent.		
3.10. When one or several criteria of independence specified in the present code are not met during the entire year, the company should announce the reasons why it considers a concrete member of the collegial body independent. Seeking to ensure the accuracy of information provided about the independence of members of the collegial body, the company should request the independent members to confirm their independence on a regular basis.	No	See comments made to paragraph 3.9 herein.
3.11. The independent members of the collegial body may be remunerated for their work and participation in the meetings of the collegial body from the company's funds. The amount of remuneration shall be determined by the general shareholders' meeting.	Not applicable	The Company's members of the supervisory board are not remunerated from the Company's funds, therefore, this provision is not relevant for the Company.

Principle IV: The Duties and Responsibilities of the Collegial Body elected by the General Shareholders' Meeting

The corporate governance framework should ensure a proper and effective operation of the collegial body elected by the general shareholders' meeting and the powers granted thereto should ensure an effective supervision of the company governance bodies and protection of interests of the company's shareholders.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter referred to in this Principle as the collegial body) should ensure integrity and transparency of the company's financial statements and the system of control. The collegial body should regularly provide recommendations to the company's governance bodies and monitor their corporate governance activities.	Yes/No	The supervisory board elected at the Company provides comments and proposals to the general shareholders' meeting about the Company's financial statement, proposed profit appropriation, annual report, performance of the board of directors and the chief executive officer. In addition, it performs the other functions that fall within the competence of the supervisory board related to its supervision of the Company and its governance bodies. Under the Articles of Association of the Company the supervisory board is not obliged to perform any additional functions of ensuring integrity and transparency of the Company's financial statements and the system of control.

4.2. Members of the collegial body should act in good faith, exercise due care and show responsibility in ensuring the benefit and protecting the interests of the company and its shareholders, paying due attention to the interests of employees and the public welfare. Independent members of the collegial body should: a) under any circumstances preserve independence of their analysis; b) not seek and accept any undue privileges which could compromise their independence; c) clearly express their objection if they think that the decision taken by the collegial body may jeopardise the company. If the collegial body has taken the decisions which the independent member considers doubtful, the member in question should make the relevant conclusions thereof. If an independent member decides to step down, he/shall explain the reasons thereof in a letter addressed to the collegial body or the audit committee or, if necessary, to an independent body (entity) which does not belong to the company.	Yes No	All members of the supervisory board act in good faith and in the interests of the Company. The level of independence of the supervisory board is not assessed, see comments made to paragraphs 3.6 and 3.7 herein.
4.3. Each member of the collegial body should devote sufficient time and attention to perform his/her duties. Each member of the collegial body should be obliged to limit his/her other professional commitments (particularly, the position of a director in other companies) so that do not interfere with the proper performance of his/her duties as a collegial body member. If a member of the collegial body took part in less than half of the body's meetings during the financial year of the company, the company's shareholders should be notified thereof.	Yes	Members of the Company's supervisory board actively participate in the meetings of the collegial body. All the meetings of the supervisory body organised in 2008 had a quorum required by the legislation. Members of the supervisory council taking part in the meeting are registered in minutes of the meeting.
4.4. When decisions taken by the collegial body may affect the company's shareholders differently, the collegial body should treat all the shareholders fairly and impartially. It should ensure that all the shareholders are properly informed about the matters pertaining to the company, its strategy, risk management and solution of conflict-of-interest situations. The company should clearly define the role of the members of the collegial body in communication with shareholders and making commitments thereto.	Yes	The shareholders are notified about the Company's strategy, risk management and conflict of interest in compliance with the procedure established by law. The role of the members of the supervisory board is determined in communication with shareholders and making commitments thereto in compliance with the requirements established by laws.

4.5. The transactions (except for minor ones which are of low value or concluded under standard terms and conditions in performing routine activities of the company) concluded between the company and the shareholders, supervisory or governance bodies or any other natural or legal persons which exert or may exert influence on the management of the company are recommended to be subject for approval by the collegial body. The decision concerning the approval of such transactions should be deemed taken only if the majority of independent members of the collegial body vote in favour of such a decision.	Yes No	Pursuant to Article 25 of the Articles of Association, the supervisory board makes decisions about the agreements concluded with members of the board of directors and the chief executive officer on the establishment of the operational conditions in the board. The level of independence of the members of the supervisory board is not assessed, see comments made to paragraphs 3.6 and 3.7 herein.
4.6. The collegial body should be independent in taking decisions which are significant for the operation and strategy of the company. Moreover, the collegial body should be independent of the company's governance bodies. No influence can be exerted on the work and decisions of the collegial body by the persons who have elected it. The company should ensure that the collegial body and its committees have sufficient resources (including financial) to carry out their duties, including the right to obtain, particularly from the company employees, all the necessary information and the right to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	The company's supervisory board is independent in taking decisions which are significant for the operation and strategy of the Company. The Company ensures sufficient resources for the supervisory board (providing technical services during the meetings of the supervisory board and giving it all the necessary information). Pursuant to Article 3.1 of the rules of procedure of the supervisory board, the supervisory board shall be entitled to nominate an expert (a group of experts) to assess the Company's financial accounts.
4.8. The main objective of committees is to increase operational efficiency of the collegial body by ensuring that the decisions are taken after due consideration and to help organise the activities in a way that the decisions of the collegial body are not affected by any material conflicts of interests. The committees should provide recommendations to the collegial body related to the decisions of the collegial body, but the final decision should be adopted by the collegial body. The purpose of the recommendation to set up committees is not to limit the competences of the collegial body or to transfer them to the committees. A collegial body remains fully responsible for the decisions taken within the remit of its competence.	Yes	See also comments made to paragraphs 4.7, 4.12, 4.13 and 4.14.

4.9. The committees set up by the collegial body should consist of at least three members. If companies have few members of the collegial body, the committees, by way of exception, may consist of two members. The majority members of each committee should be independent members of the collegial body. If a supervisory board is not set up in the company, the remuneration and audit committees shall comprise only non-executive directives.	Yes/No	The audit committee established by the parent company LEO LT, AB consists of three members. The number of members of the remuneration and nomination committee set up by LEO LT, AB has not been determined. It has been established that at least one member of the audit committee of LEO LT, AB should be independent. See also comments made to paragraphs 4.7, 4.12, 4.13 and 4.14.
4.10. The powers of each committee should be established by the collegial body. The committees should carry out their duties in line with their powers and should regularly inform the collegial body about their performance. The powers of each committee, including its role, rights and duties, should be published at least once per year (as a part of the information published about the company's management structure and practices). The companies should also publish in their annual reports the statements submitted by the existing committees about their composition, number of meetings and participation of their members in meetings during the last year, as well as about the main directions of their activities. The audit committee should verify that it is satisfied with the independence of auditing and shortly describe the actions taken to make such conclusions.	Yes/No	The powers of the audit and remuneration and nomination committees set up by LEO LT, AB as well as the procedure of making notices is laid down in the rules of procedure of the supervisory committee of LEO LT, AB. See also comments made to paragraphs 4.7, 4.12, 4.13 and 4.14.
4.11. Seeking to ensure the independence and objectivity of committees, members of the collegial body who are not members of the committee should generally have right to take part in the committee meetings only if invited by the committee. The committee may invite and request the certain employees or expert are present in the meeting. Every chairman of the committee should have the opportunity to keep a direct contact with the shareholders. The cases in which such contacts should be ensured should be provided for in the committee regulations.	Yes	Pursuant to the rules of procedure of the supervisory board of Leo LT, AB, persons other than the committee members may take part in the meetings only upon approval of the chairperson of the committee.
4.12. The nomination committee. 4.12.1. The main functions of the nomination committee should include the following:	Yes	The Company does not have a nomination committee and its functions are performed by the Remuneration and Nomination Committee set up the parent

1) Identify candidates to the position of members of the collegial body and submit them to the collegial body for consideration. The nomination committee should assess the balance of skills, knowledge and experience in the governance body, make a description of functions and abilities necessary to hold the position and assess the time required to perform the duties. The nomination committee may also consider the candidates to the position of members of the collegial body suggested by the shareholders; 2) Assess, on regular basis, the structure, size, composition and performance of supervisory and governance bodies, and make recommendations to the collegial body about the ways of making the necessary changes; 3) Assess, on regular basis, the skills, knowledge and experience of individual directors and report the findings to the collegial body; 4) Pay proper attention to succession planning; 5) Review the policy of governance bodies about the selection and nomination of senior management. 4.12.2. The nomination committee should consider the proposals submitted by other persons, including the administration and shareholders. In dealing with the issues related to executive directors or members of the board of directors (if the collegial body elected by the general shareholders' meeting is a supervisory board) and senior management, the company's chief executive officer should be consulted and he/she shall be entitled to submit his/her proposals to the nomination committee.		company LEO LT, AB. The rights and duties as well as the work organisation of the Committee are laid down in the rules of procedure of the supervisory board of LEO LT, AB. The main functions of the Remuneration and Nomination Committee include the following: - assess and make proposals concerning the long-term remuneration and bonus policy of subsidiaries; - assess the search and selection procedure of members of the bodies of subsidiaries and establishment of qualification requirements, etc.
4.15. Every year the collegial body should conduct the assessment of its activities. It should include the following: assessment of the collegial body's structure, organisation of work and ability to act as a group, assessment of competence and performance of each of the collegial body members and committees and assessment of the level of attainment of its goals. The collegial body should, at least once a year, publish information about its internal organisation and work practices (as a part of the information about the company's management structure and practices) and	No	So far the Company has not seen any need or had any practice of performing a formal self-assessment by the supervisory board and has not provided any information about that because these requirements are not established by the legislation. The activities of the Company's supervisory board are assessed by the Company shareholders in compliance with the procedure established by law.

specify what material changes were made as a result of the assessment of activities performed by the collegial body.		

Principle V: The Procedure of Operation of the Company's Collegial Bodies

The procedure of operation of the collegial supervisory and governance bodies established by the company should ensure an effective operation and decision-making of the bodies and encourage active co-operation among the bodies of the company.

5.1. The company's collegial supervisory and governance bodies (the concept of *collegial bodies* referred to in this Principle includes both collegial supervisory and governance bodies) shall be chaired by the chairpersons of these bodies. The chairperson of a collegial body shall be responsible for a proper convocation of collegial body meetings. The chairperson should ensure that the information about the meeting convened and its agenda are communicated to all the members of the body. The chairperson of a collegial body should ensure that the meetings of the collegial body are properly chaired and that the meetings are conducted in a disciplined and working manner.	Yes	Pursuant to the rules of procedure of the supervisory board and the board of directors, the Company is in compliance with the recommendation.
5.2. The meetings of the company's collegial bodies are recommended to be convened at regular intervals under a previously agreed schedule. Every company shall decide about the regularity of collegial body meetings, yet it is recommended to hold them at such intervals which ensure a non-interrupted solution of the key corporate governance issues. The meetings of the company's supervisory body should be convened at least once per quarter, and the company's board of directors should meet at least once a month.	Yes	Pursuant to the rules of procedure, the meetings of the Company's supervisory board should be conducted at least once per quarter, and the meetings of the board of directors should be conducted at least once per month.
5.3. Members of the collegial body should be notified about the meeting convened in advance to have sufficient time to get ready for the consideration of the issues at stake and take part in a useful discussion followed by the adoption of appropriate decisions. Along with the notice about the meeting convened, any other documents relating to the issues of the agenda should be submitted to the members of the collegial body. The agenda of the meeting should not be subject to any changes or supplements during the meeting, unless all	Yes	Pursuant to the rules of procedure of the supervisory board, members of the board and other invited persons are notified about the convention of the meeting five days in advance, and they are provided with all the necessary documents relating to the agenda of the meeting. Pursuant to the rules of procedure of the board of directors, members of the board and other invited persons are notified about the convention of the meeting three days in advance, and they

the members of the collegial body are present or certain issues which are of great importance to the company demand immediate attention.		are provided with all the necessary documents relating to the agenda of the meeting.
5.4. Seeking to co-ordinate the operation of the company's collegial bodies and ensure an effective decision-making process, chairpersons of the company's supervisory and governance bodies should agree on the dates and agendas of the meetings to be convened, and closely co-operate in solving any other issues pertaining to corporate governance. Meetings of the company's supervisory boards should be open to the members of the company's board of directors, particularly when the meeting addresses the issues related to removal of the members of the board of directors, their responsibilities and setting of their salaries.	Yes	The dates and agendas of meetings of the Company's collegial supervisory and governance bodies are set and coordinated in compliance with the procedure established by law.

Principle VI: 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 ensure equal rights of voting, ownership, dividend and other to all of its 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, which are publicly available on the Company's website, specify the rights granted by shares.
6.3. The transactions that are important to the company and its shareholders, such as the transfer, investment, and pledge of the company's assets or any other type of encumbrance, should be subject to approval by the general shareholders' meeting. All the shareholders should be granted equal opportunities to access and participate in the decision-making processes when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	Article 46 of the Company's Article of Association lays down criteria of important transactions according to which transactions requiring approval of the general shareholders' meeting are established.

6.4. The procedures for convening and conducting general shareholders' meetings should ensure equal opportunities for the shareholders to 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 constitute an obstacle for a wide attendance of the shareholders. Prior to the general shareholders' meeting, the company's supervisory and governance bodies should enable the shareholders to ask questions about the items placed on the agenda of the general shareholders' meeting and receive answers to them.	Yes	The venue, date, and time of the general shareholders' meeting of the Company are determined to ensure an opportunity for all shareholders to participate. The Company shareholders are given an opportunity to access the documents of the meeting at least 10 days prior to general shareholders' meeting.
6.5. It is recommended that the documents developed for the general shareholders' meeting, including draft decisions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the signed minutes of the general shareholders' meeting and/or adopted decisions should also be placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to read the information, the documents referred to in this recommendation should be, where possible, published in English and/or other foreign languages. The documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent and within the scope which is not detrimental to the company or the company's commercial secrets.	Yes	Pursuant to the Law on Companies, the Company places draft decisions of the general shareholders' meeting on the publicly accessible website of the Company 10 days in advance in Lithuanian and English. The decisions taken by the general shareholders' meeting are placed on the Company's website in English and Lithuanian.
6.6. The shareholders should be given an opportunity to vote in the general shareholders' meeting in person and in absentia. The shareholders should be given the right of advance voting in writing by completing the general voting ballot.	Yes	The Company shareholders can exercise their right to take part in the general shareholders' meeting both personally and by proxy provided that such proxy has been duly authorised or an agreement on the assignment of voting rights has been signed in accordance with the procedure prescribed by law. The Company provides its shareholders with an 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 at	Yes	Upon the shareholders' request, the Company could provide an opportunity

shareholders' meetings, the companies are recommended to expand the use of innovation technologies in voting processes by allowing the shareholders to vote in general meetings using the 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 the means of modern technologies.		for the shareholders to vote using the terminal equipment of telecommunications.

Principle VII: Avoiding and Disclosing the Conflicts of Interest

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and ensure transparent and effective mechanism for the disclosure of conflicts of interest with respect to the members of the corporate bodies.

7.1. Any member of the company's supervisory and governance body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. If such a situation arises, the member of the company's supervisory and governance body should, within reasonable time, inform the other members of the same collegial body or the corporate body which has elected him/her or the company shareholders about the situation and specify the nature of the conflict and interests and, where possible, name the relevant value involved.	Yes	The Company complies with these recommendations.
7.2. Any member of the company's supervisory and governance 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 complies with these recommendations.
7.3. Any member of the company's supervisory and governance body may conclude a transaction with the company, or a member of a corporate body to which he/she belongs. Such a transaction (except	Yes	The Company complies with these recommendations.

for minor ones which are of low value or concluded under standard terms and conditions in performing routine activities of the company) must be immediately reported in writing or orally, by including 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. The transactions specified in this recommendation are also subject to recommendation 4.5.		
7.4. Any member of the company's supervisory and governance body should abstain from voting when it involves decisions on transactions and any other issues that are of personal or business interest to him/her.	Yes	A member of the Company's board of directors is required to abstain from voting when it involves decisions concerning his/her activities or responsibilities at the board (paragraph 9.4 of rules of procedure of the board of directors). Moreover, laws prescribe that members of the Company's bodies should avoid situations where their personal interests are or may be in conflict with the interests of the Company.

Principle VIII: Corporate Remuneration Policy

The remuneration policy and the procedure of approval, revision and disclosure of directors' remuneration established in the company should prevent any potential conflicts of interest and abuses in determining the amount of remuneration for directors, as well as ensure openness and transparency of the corporate remuneration policy and remuneration of directors.

8.1. The company should publish its remuneration policy statement (hereinafter referred to as the remuneration statement). This statement should be a part of the company's annual accounts. The remuneration statement should also be placed on the company's website.	Yes	The general information about the Company's remuneration policy and the average remuneration of individual employees is published in the Company's annual report.
8.2. The remuneration statement should mainly focus on corporate directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain an overview of implementation of the remuneration policy in the previous financial year. A special attention should be given to any significant changes made to the company's remuneration policy as compared to the previous financial year.	No Yes	The annual report does not provide information about the remuneration policy of the Company directors for the subsequent years. The annual report provides information about the total amount of remuneration calculated for the members of the Company's supervision and governance bodies (remuneration, other benefits, bonuses and profit payments).
8.3. The remuneration statement should include at least the following information: 1) Explanation of the relative importance of the variable and non-variable components	Yes	The annual report includes information about the total amount of remuneration calculated for the members of the Company's supervision and governance

of the directors' remuneration; 2) Sufficient information about the performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the link 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 the information which is not subject to disclosure due to commercial reasons.		bodies (remuneration, other benefits, bonuses and profit payments), information about any property transferred or guarantees provided to the members of the governance bodies.
8.4. The remuneration statement should also make an overview and explain the company's policy regarding the terms and conditions of the contracts concluded with executive directors and members of the management bodies. It should include, inter alia, the information about the duration of the contracts concluded with executive directors and members of the management bodies, the applicable notice periods and details about severance pays and other payments made as a result of an early termination of contracts concluded with executive directors and members of the management bodies.	Yes	In its annual report, the Company discloses information about third party liability of members of the board of directors as a legal entity, as well as the agreements concluded by the issuer and the members or employees of its bodies providing for a compensation in the event of their resignation or ungrounded dismissal or if their work ended as a result of changes in the issuer's control.
8.5. Furthermore, the disclosed information should include data about the preparatory and decision-making processes, during which the remuneration policy for directors was established. Where applicable, it should also include the data about the powers and composition of the remuneration committee and the names of external consultants whose services were used in determining the remuneration policy and the role of the annual general meeting shareholders.	No	The Company does not describe the powers and composition of the Remuneration and Nomination Committee in its annual report because this committee has been established in the parent company LEO LT, AB. See comment made to paragraph 4.13.
8.6. Without prejudice to the role and organisation of the relevant bodies responsible for setting directors' remuneration, the remuneration policy or any other significant changes in the remuneration policy should be included into the agenda of the annual general meeting of shareholders. The remuneration statement should be put for voting in the annual general meeting of shareholders. Voting may be either mandatory or advisory.	No	According to the Company practice, the issues of remuneration policy are not included in the agenda of the general shareholders' meeting. This requirement is not laid down in laws.

8.7. The remuneration statement should also contain detailed information about the entire amount of remuneration, including any benefits paid to individual directors during the relevant financial year. This document should list at least the information set out in paragraph 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 information about the remuneration and/or other payments made should include the following: 1) The total amount of remuneration paid or due to the director for the services performed during the relevant financial year, including, where relevant, attendance fees fixed by the annual general meeting of shareholders; 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) where permitted by law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensations due 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) The total estimated value of non-cash benefits considered as remuneration, other than the items covered in paragraphs 1 to 5 above. 8.7.2. As regards the 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 the conditions of application; 2) The number of share 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	No	So far no practice has been applied in the Company with regard the disclosure of information in the annual report about the total and average amounts of remuneration, bonuses or any other payments made to the supervisory board or the board of directors during the reporting year. The information is provided as a breakdown by different categories of these persons. In addition, the Company provides information about the loans, guarantees and sureties issued to these individuals and the number of shares held by them.

of existing share options occurring during the financial year. 8.7.3. The information about any additional pension schemes related information should include the following: 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 a defined-contribution scheme, detailed information about contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also include the 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 outstanding amount and the interest rate.		
8.8. The schemes under which the directors are remunerated in shares, share options or any other right to purchase shares or on the basis of share price movements should be subject to a prior approval of the annual general meeting of shareholders. The approval of the 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 made to the scheme should also be subject to the shareholders' approval prior to their adoption; and the decision thereof should be made during the annual general meeting of shareholders. In such a case, the shareholders should be notified about all terms and conditions of suggested changes and receive an explanation about the impact of these changes.	Not applicable	So far the Company has not applied any schemes under which directors would be remunerated in shares, share options, any other rights to purchase shares or on the basis of the share price movements.
8.9. The annual general meeting of shareholders shall approve the following: 1) Granting of share-based schemes, including share options, to directors; 2) Determination of the maximum number of shares and the main conditions for granting shares; 3) The time period during which the options can be exercised; 4) The conditions for making any subsequent changes in the exercise of options where it is in line with law; 5) Any other long-term incentive schemes	Not applicable	See comment made to paragraph 8.8 herein.

for which the directors are eligible and which are not available to the other employees of the company under similar terms. The annual general meeting should also set the deadline within which the body responsible for the remuneration of directors may award compensations listed under this paragraph herein to individual directors.		
8.11. Paragraphs 8.8 and 8.9 should not apply to the schemes allowing participation, under similar conditions, of company employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the annual general meeting of shareholders.	Not applicable	See comment made to paragraph 8.8 herein.
8.12. Prior to the annual general meeting, the purpose of which is to consider the decision stipulated in paragraph 8.8, the shareholders must be provided with an opportunity to read the draft decision and related notice (the documents should be placed on the company's website). The notice should contain a full text of the share-based remuneration schemes or a description of their key terms and conditions, as well as the full names of the scheme participants. The notice should also specify the relation between the schemes and the overall remuneration policy of the directors. The draft decision must have a clear reference to the scheme itself or to the summary of its key terms and conditions. The shareholders must also be given information about the ways in which the company intends to obtain the shares required to meet its obligations under the incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in the reserve or issue new ones. The notice should also provide a summary about the scheme-related expenses which the company will incur as a result of the application of the scheme. All the information provided under this paragraph must be placed on the company's website.	Not applicable	See comment made to paragraph 8.8 herein.

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 the companies and the stakeholders in creating the company value, jobs and financial sustainability. Under this Principle, the concept "stakeholders" shall include investors, employees, creditors, suppliers, clients, local community and other persons having an interest in the company concerned.

9.1. The corporate governance framework should ensure that the rights of stakeholders protected by law are respected.	Yes	The Company's corporate governance system ensures that the rights of stakeholders protected by law are respected. For instance, the Company employees are involved in consultations, negotiations and meetings concerning the issues related to the operational optimisation processes in the Company. Under a collective agreement signed with representatives of the Company's employees, the Company should notify immediately the trade union representatives about the changes anticipated in the Company, its financial status, etc. The stakeholders may take part in the corporate governance inasmuch as it is provided for by laws.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. The examples of mechanisms ensuring stakeholder participation in corporate governance include the following: employee participation in the 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 event of insolvency of the company, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should be given the access to the relevant information.		

Principle X: Disclosure of Information

The corporate governance framework should ensure that timely and accurate disclosure is made about all material issues of the company, including its financial situation, performance and management.

10.1. The company should disclose information about: 1) the company's operational and financial performance; 2) the company's objectives; 3) the persons holding, by right of ownership, or controlling the company's stock; 4) members of the company's supervisory and governance bodies, the company's chief executive officer and the remuneration thereof; 5) foreseeable material risk factors;	Yes	The Company discloses information required by this recommendation in a number of ways: 1. Publishes information about essential (e.g. changes in the Company's governance structure, newly elected members to the supervisory and governance bodies, the Company's financial performance, etc.); 2. Places information on the publicly accessible website of the Company (e.g. about the Company's objectives; 3. Publishes information in the annual report (e.g. about the members of the Company's supervisory and governance bodies, chief executive officer and their

6) transactions concluded between the company and related persons, as well as transactions concluded by the company outside its regular line of operations; 7) main issues related to employees and the other stakeholders; 8) the company's management structure and the strategy. The list shall be deemed as minimum and the companies shall be encouraged to disclose the information that is not listed above.		remuneration, potential risk factors, etc.). The Company discloses information about the consolidated results of the whole group (i.e. the results of Rytų Skirstomieji Tinklai AB and its subsidiaries).
10.2. In disclosing the information specified in paragraph 1 of Recommendation 10.1 above, the company is recommended to disclose the information about consolidated results of the group to which the company belongs.	Yes	The Company complies with this recommendation: it discloses the information about the consolidated results of the Company and the group of its subsidiaries. The information related to the parent company Leo LT, AB, is published by the parent company.
10.3. In disclosing the information specified in paragraph 4 of Recommendation 10.1 above, the company is recommended to submit the information about the professional background, qualifications and potential conflicts of interest which might affect the decision-making of members of the company's supervisory and governance bodies and the company's chief executive officer. It is also recommended to disclose the remuneration or any other income received by the members of the company's supervisory and governance bodies and the company's chief executive officer in line with the requirements laid down under Principle VIII.	Yes	The Information specified in the recommendation was provided in the Company's annual report (professional background of the chief executive officer, participation of members the Company's supervision and governance bodies in the activities of other companies and their remuneration).
10.4. In disclosing the information provided under paragraph 7 of Recommendation 10.1 above, the company is recommended to disclose the information about the relations of the company and its stakeholders, including its employees, creditors, suppliers and the local community, and the company policy with respect to human resources and the schemes of employee participation in the company's share capital, etc.	Yes	The Company's annual report provides information about the relations between the Company and its stakeholders. This information is also disclosed in press releases and on the Company's website.
10.5. The information should be disclosed in a way that no shareholders or investors are discriminated with regard to the manner or scope of the access to information. The information should be disclosed to	Yes	The Company publishes information in Lithuanian and English using the information disclosure system of the Vilnius Stock Exchange. The Company announces the information simultaneously before or after a trading

everybody and at the same time. It is recommended that notices about the essential events should be announced prior or after the trading session on the Vilnius Stock Exchange to make sure that all the shareholders and investors of the company have an equal access to the information and make appropriate investment decisions.		session on the Vilnius Stock Exchange to all the markets where the Company's securities are traded. The Company does not disclose the information that may affect the price of shares issued by it in any comments, interviews or otherwise until such information is made public through the information system used by the stock exchange.
10.6. The channels for the dissemination of information should ensure an impartial, timely and inexpensive access to the information for its users. It is recommended that information technologies, e.g. the company's website, should be used to ensure a wider scope of dissemination. It is recommended that the information published and placed on the company's website should be not only in Lithuanian, but also in English, and, where possible and necessary, in other languages.	Yes	Apart from the means of dissemination of information described under Paragraph 10.5 herein, the Company also uses the media (press, news agencies, public accessible website of the Company) seeking to ensure a wide reach of information by the interested parties. The information on the Company's website is placed in Lithuanian and English.
10.7. The company is recommended to publish on its website the annual report, periodical accounts and other reports developed by the company. It is also recommended to place information on the company's website about the essential events and changes in the price of the company's shares on the Stock Exchange.	Yes	The Company places on its website all the information specified in the recommendation.

Principle XI: The Selection of the Company's Auditor

The mechanism of selecting the company's auditor should ensure the independence of the auditor and the opinion thereof.

11.1. Seeking to get an objective opinion about the company's interim financial statement, the company's financial statement and the annual report should be audited by an independent firm of auditors.	Yes/No	An independent audit is performed of the Company's annual financial statements and annual report. No auditing of interim financial statements is carried out.
11.2. The company's supervisory board and, where it is not set up, the company's board of directors is recommended to name a candidate firm for appointment as auditors to the general shareholders' meeting.	No	Upon the selection of a firm of auditors, the Company's board of directors proposes it to the general shareholders' meeting (see paragraph 4.4.9 of the rules of procedure of the board of directors).
11.3. If the firm of auditors has received remuneration from the Company for performing the services other than auditing, the company should disclose this	Yes	

information to the shareholders. This information should also be provided to the company's supervisory board or, if it is not set up, the board of directors while considering the candidate firm of auditors to be proposed to the general shareholders' meeting.		