# Joint Stock Company „VST”

**Financial statements for the year 2006 prepared in accordance with International Financial Reporting Standards presented together with independent auditors' report**

## CONTENTS

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## Independent auditors' report to the shareholders of Joint Stock Company VST

We have audited the accompanying 2006 financial statements of Joint Stock Company VST, a company registered in the Republic of Lithuania (the "Company"), which comprise the balance sheet as at 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

*Opinion*
In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company VST as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Jonas Akelis
Auditor's licence
No. 000003

Asta Štreimikienė
Auditor's licence
No.000382

The audit was completed on 28 February 2007.

*(all amounts are in LTL '000 unless otherwise stated)*

## Income statement

| | Notes | Year ended 31 December 2006 | 2005 |
|---|---|---|---|
| Sales | 3 | 924 779 | 842 781 |
| Other operating income | 4 | 3 851 | 3 964 |
| | | 928 630 | 846 745 |
| Purchases of electricity | | (491 125) | (451 164) |
| Depreciation and amortisation | 9, 17 | (217 999) | (212 095) |
| Wages, salaries and social security | | (50 659) | (57 330) |
| Repair and maintenance expenses | | (21 619) | (14 144) |
| Spare parts and other inventories | | (14 968) | (13 740) |
| Utilities and communications expenses | | (5 445) | (6 147) |
| Other operating expenses | 5 | (32 259) | (32 206) |
| | | (834 074) | (786 826) |
| **Operating profit** | | **94 556** | **59 919** |
| Financial income | 6 | 5 907 | 4 764 |
| Financial (expenses) | 6 | (16 862) | (16 963) |
| **Profit before tax** | | **83 601** | **47 720** |
| Current year income tax (expenses) | 18 | (54 383) | (37 958) |
| Deferred income tax benefit | 18 | 30 459 | 38 710 |
| **Net profit** | | **59 677** | **48 472** |
| Basic and diluted earnings per share, in LTL | 8 | 16,05 | 13,04 |

The financial statements presented on pages 4 to 26 were approved by the General Director and Director of Financial Department on 28 February 2007. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require a new set of financial statements to be prepared.

Darius Nedzinskas
General Director

(signature)

Antanas Poška
Director of Financial Department

(signature)

*The notes on pages 8 to 26 are an integral part of these financial statements*

*(all amounts are in LTL '000 unless otherwise stated)*

## Balance sheet

| | Notes | As of 31 December 2006 | 2005 (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 2 079 091 | 2 164 243 |
| Intangible assets | 10 | 656 | 666 |
| | | 2 079 747 | 2 164 909 |
| **Current assets** | | | |
| Inventories | 11 | 6 525 | 13 701 |
| Trade and other receivables | 12 | 83 039 | 67 474 |
| Prepayments, deferred charges and accrued income | 13 | 12 672 | 9 252 |
| Cash and cash equivalents | 14 | 102 935 | 199 300 |
| | | 205 171 | 289 727 |
| **Total assets** | | **2 284 918** | **2 454 636** |
| **EQUITY** | | | |
| Share capital | 15 | 111 540 | 111 540 |
| Revaluation reserve | 2,17 | 830 011 | 925 424 |
| Legal reserve | 2,17 | 11 154 | 11 154 |
| Retained earnings | | 453 999 | 429 730 |
| **Total equity** | | **1 406 704** | **1 477 848** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 16 | 347 091 | 388 801 |
| Deferred income | 17 | 136 385 | 98 787 |
| Deferred income tax liability, net | 18 | 206 293 | 234 239 |
| | | 689 769 | 721 827 |
| **Current liabilities** | | | |
| Borrowings | 16 | 49 489 | 100 414 |
| Trade and other payables | 19 | 94 699 | 112 673 |
| Advances received and accrued charges | 20 | 28 321 | 18 998 |
| Income tax payable | | 15 936 | 22 876 |
| | | 188 445 | 254 961 |
| **Total liabilities** | | **878 214** | **976 788** |
| **Total equity and liabilities** | | **2 284 918** | **2 454 636** |

Darius Nedzinskas
General Director

(signature)

Antanas Poška
Director of Financial Department

(signature)

*The notes on pages 8 to 26 are an integral part of these financial statements*

*(all amounts are in LTL '000 unless otherwise stated)*

## Cash flow statement

| | Notes | Year ended 31 December 2006 | 2005 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit | | 59 677 | 48 472 |
| **Adjustments for non-cash items:** | | | |
| - Income tax | 18 | 23 924 | ( 752) |
| - Depreciation and amortisation | 9, 10 | 218 365 | 212 461 |
| - Depreciation of property, plant and equipment received at no consideration | 17 | (366) | (366) |
| - Recognition of income from the connection of new customers | 3 | (3 558) | (2 412) |
| - Accrued income from electricity sales | 13 | (621) | - |
| - Loss (profit) on sale of property, plant and equipment | 4 | 373 | (154) |
| - Write-offs and impairment of property, plant and equipment | 9 | 3 920 | 8 683 |
| - Impairment of receivables and prepayments | 5 | 558 | 1 041 |
| - Inventories surplus and reversal of inventories impairment | | (804) | (9) |
| - Accrued wages, salaries and social security expenses | 20 | 3 065 | 14 273 |
| - Net loss from transactions in foreign currencies | 6 | 4 | 14 |
| - Interest (income) | 6 | (5 196) | (4 262) |
| - Interest expenses | 6 | 16 781 | 16 760 |
| - Other (income) | | - | (39) |
| | | 316 122 | 293 710 |
| **Changes in working capital:** | | | |
| - Inventories | 11 | 7 980 | (6 012) |
| - Receivables, prepayments, deferred charges and accrued income | 12, 13 | (8 832) | (15 400) |
| - Deferred income | 17 | 31 499 | 34 403 |
| - Payables, advances received and accrued charges | 17, 19, 20 | (3 514) | 45 336 |
| Cash flow from operations | 22 | 343 255 | 352 037 |
| Interest received | | 5 060 | 4 034 |
| Interest (paid) | | (16 533) | (16 538) |
| Income tax (paid) | 18 | (61 295) | (34 702) |
| **Net cash flows from operating activities** | | **270 487** | **304 831** |
| **Cash flows from investing activities** | | | |
| (Purchase) of property, plant and equipment | 9 | (141 113) | (121 616) |
| (Purchase) of intangible assets | 10 | (885) | (186) |
| Proceeds from sale of property, plant and equipment | | 4 502 | 653 |
| Loan repayments received | | 39 | 44 |
| **Net cash flows from investing activities** | | **(137 457)** | **(121 105)** |
| **Cash flows from financing activities** | | | |
| Loans (repaid) | 16 | (101 237) | (103 812) |
| Financial lease payments | 16 | (41) | (40) |
| Dividends (paid) and (payments) related to share capital decrease | 7 | (128 113) | (27 531) |
| **Net cash flows from financing activities** | | **(229 391)** | **(131 383)** |
| Effects of exchange rate changes on cash balance | 6 | (4) | (14) |
| **Net (decrease) increase in cash and cash equivalents** | | **(96 365)** | **52 329** |
| Cash and cash equivalents at beginning of year | | 199 300 | 146 971 |
| **Cash and cash equivalents at end of year** | 14 | **102 935** | **199 300** |

Darius Nedzinskas
General Director

(signature)

Antanas Poška
Director of Financial Department

(signature)

*The notes on pages 8 to 26 are an integral part of these financial statements*

*(all amounts are in LTL '000 unless otherwise stated)*

## Statement of changes in equity

| | Notes | Share capital | Revaluation reserve | Legal reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2004 (as reported before)** | | **3 718** | **1 422 189** | **29 866** | **99 467** | **1 555 240** |
| Impact of hyperinflation adjustment | 2.1 | - | (254 493) | - | 254 493 | - |
| **Restated balance as at 31 December 2004** | | **3 718** | **1 167 696** | **29 866** | **353 960** | **1 555 240** |
| Increase of the share capital | 15 | 107 822 | (107 822) | - | - | - |
| Transfer from legal reserve to retained earnings | 15 | - | - | (18 712) | 18 712 | - |
| Transfer from revaluation reserve to retained earnings | | - | (112 750) | - | 112 750 | - |
| Impact of hyperinflation adjustment | 2.1 | - | (13 920) | - | 13 920 | - |
| Impact of deferred income tax to revaluation reserve, due to change in income tax rates | 18 | - | (7 780) | - | - | (7 780) |
| Dividends declared for 2004 | 7 | - | - | - | (118 084) | (118 084) |
| Net profit for the reporting period | | - | - | - | 48 472 | 48 472 |
| **Balance as at 31 December 2005** | | **111 540** | **925 424** | **11 154** | **429 730** | **1 477 848** |
| Transfer from revaluation reserve to retained earnings | | - | (92 900) | - | 92 900 | - |
| Reassessment of deferred income tax | | - | (2 513) | - | - | (2 513) |
| Dividends declared for 2005 | 7 | - | - | - | (128 308) | (128 308) |
| Net profit for the reporting period | | - | - | - | 59 677 | 59 677 |
| **Balance as at 31 December 2006** | | **111 540** | **830 011** | **11 154** | **453 999** | **1 406 704** |

Darius Nedzinskas
General Director

(signature)

Antanas Poška
Director of Financial Department

(signature)

# Notes to the financial statements

## 1 General information

Joint Stock Company VST (hereinafter, "the Company") is a joint stock company registered in the Republic of Lithuania and was established following the reorganisation of SPJSC Lietuvos Energija and registered on 31 December 2001. The Company has changed the name to JSC VST on 26 April 2005 from JSC Vakarų Skirstomieji tinklai.

The shares of the Company are traded on the Baltic I – list of the Vilnius Stock Exchange.

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

| Shareholder | Number of shares | (%) |
|---|---|---|
| UAB NDX Energija | 3 610 159 | 97.10 |
| Other shareholders | 107 839 | 2.90 |
| | 3 717 998 | 100.00 |

The Company's principal activity is distribution and supply of electricity in Western Lithuania.

The average number of the Company's employees was 1 968 in 2006 (1 998 in 2005).

## 2 Summary of accounting policies

### 2.1 Basis of preparation

These financial statements have been prepared on a historical cost basis, except for property plant and equipment that have been measured at revalued amounts.

*Statement of compliance*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

*Adoption of new and/or changed IFRSs and IFRIC interpretations*

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

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments.

- IFRS 8 Operating Segments (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.

- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.

- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

## 2 Summary of accounting policies (cont'd)

### 2.1 Basis of preparation (cont'd)

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). 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 o each group entity.

- IFRIC 12 Service Concession Agreements (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators shoulc apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements.

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

- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Company. They did however give rise to additional disclosures. Following IFRS and IFRIC have been applied:

- IAS 19 Amendment -Employee Benefits
- IAS 21 Amendment - The effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments - Financial instruments: Recognition and Measuremen
- IFRIC 4 Determining whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

*Restatement of prior year figures and correction of error*

In 2006 the Company restated it's financial statements prior year figures in order to reflect the impact of application of the IAS 29 Financial Reporting in Hyperinflationary Economies. In previous years the Company's management believed that it is impracticable to estimate the error resulting from the use of indices different from those required by IAS 29, because the consumer price indices available until the Lithuania's membership of the EU were considered not reliable and the new management of the Company (after privatization) was assured that there is no documents available providing the original cost value of property, plant and equipment at the indexation dates. However, recent developments of the Lithuanian statistics in relation to the EU membership changed the situation, because the statistical data gathered by the Lithuanian statistics authorities were started to be used by the Eurostat for comparison purposes and therefore was recognized and accepted as reliable. Based on that the Company's management initiated the action to investigate whether the data of property, plant and equipment used for indexations before the privatization could be found.

The action took place in 2005-2006 and finally the data was obtained and the effect of differences between indices actually applied and those required to be applied under IAS 29 were estimated and accounted for in the books of the Company.The Company calculated the effect of the differences between the previously applied property, plant and equipment indexation ratios (1991-1996) provided by the Government resolutions, which were not in line with the consumer price indices, and the actual consumer price indices. This effect was accounted for retrospectively according to IAS 8 as an error correction by restating the year 2005 opening balances of revaluation reserve and retained earnings (reclassification between these captions) and comperative figures of 2006. The amount of correction as of 31 December 2004 was LTL 254 493 thousand and the impact on the 2005 equity movement was LTL 13 920 thousand.

In addition, where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

## 2 Summary of accounting policies (cont'd)

### 2.2 Foreign currency translation

*Measurement currency*

The amounts shown in these financial statements are presented in local currency, Litas (LTL). The Litas is the measurement currency of the Company.

Since 2 February 2002, the Litas is pegged to the Euro at a rate of LTL 3.4528 = EUR 1.

*Transactions and balances*

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement under net finance income or costs.

### 2.3 Segment reporting

The Company operates in one geographical and business segment, therefore no segment information is presented in these financial statements.

### 2.4 Use of estimates in the preparation of financial statements

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 estimation of accrued revenue depreciation, overdeclaration income calculation, depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

### 2.5 Revenue recognition

All revenue are recognised net of value added tax and discounts directly related to sales.

*Electricity sales revenue*

Revenue on electricity sales to residential sector customers are recognised when earned. An estimate of revenue accrual is made to record amounts earned, but not yet received at the end of each accounting period.

Revenue on electricity sales to business customers are recognised when services are rendered based on the actual usage of the electricity.

*Customers' 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 income 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

*Other revenue*

Interest, rental and other revenue is recognised on an accrual basis. Other revenue is recognised upon delivery of products or rendering of services and customer acceptance, if any.

## 2 Summary of accounting policies (cont'd)

### 2.6 Income tax

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

In 2006 standard income tax rate in Lithuania was 19%, in 2005 – 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with 15% corporate income tax, for one financial year beginning on 1 January 2006 companies have to pay an additional 4% tax calculated based on the income tax principles, and one financial year beginning on 1 January 2007 – 3% tax. After the year 2007 the income tax rate applied to the companies in the Republic of Lithuania will be 15%.

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

### 2.7 Basic and diluted earnings (loss) per share

Basic earning (loss) per share is calculated by dividing the net profit (loss) attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shareholders 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. Since there are no instruments reducing earnings (loss) per share, there is no difference between the basic and diluted earnings (loss) per share.

### 2.8 Property, plant and equipment

Assets are attributed to property, plant and equipment if their useful life exceeds one year.

Construction in progress is stated at historical cost less accumulated impairment losses.

All other property, plant and equipment are shown at revalued amounts, based on periodic (at least every 5 years) valuations by external independent valuers, less subsequent accumulated depreciation and subsequent accumulated impairment losses, excluding the costs of day-to-day servicing. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets. Day-to-day servicing cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred i the asset recognition criteria are met.

Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited directly to equity under the heading of revaluation reserve and decreases are recognised in the income statement. Increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Decreases arising on subsequent revaluations 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. Revaluation increases in property plant and equipment value that offset previous decreases are taken to income statement. Each year the difference between depreciatio based on the revalued carrying amount of the asset 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.

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

| | |
|---|---|
| – Buildings | 10–50 years |
| – Structures and machinery | 5–50 years |
| – Vehicles | 4–15 years |
| – Other property, plant and equipment | 3–10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The useful lives of assets that are planned to be 100% reconstructed in the future are shortened until the start of the reconstruction date.

Property, plant and equipment obtained at no consideration is accounted for in corresponding captions of property, plant and equipment and deferred income. 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 income 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.

## 2 Summary of accounting policies (cont'd)

### 2.8 Property, plant and equipment (cont'd)

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

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the income statement. Gains and losses on disposal of property, plant and equipment are determined as a difference between proceeds and the carrying amount of the assets disposed. When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

Construction in progress is transferred to appropriate group of property, plant and equipment when it is completed and ready for its intended use.

### 2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

### 2.10 Impairment of non-current assets

Each year, property, plant and equipment and other non-current assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

### 2.11 Lease

*The Company as the lessee*

The Company recognizes finance leases as assets and liabilities in the balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company’s incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

*The Company as the lessor*

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

### 2.12 Grants

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognised as income in the financial statements over the period of depreciation of the assets associated with this grant. In the income statement, other income account is increased by the amount of grant amortisation.

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

## 2 Summary of accounting policies (cont'd)

### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using first-in, first-out (FIFO) method. The cost of inventories comprises purchase price, transport, and other costs directly attributable to the cost of inventories. Net realisable value is the estimate of the selling price, less the costs of completion, marketing and distribution.

### 2.14 Receivables

Receivables are carried at original invoice amount less allowance made for impairment of these receivables. An allowance for impairment of trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

### 2.15 Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at hand, demand deposits, and other short-term highly liquid investments.

### 2.16 Share capital

Ordinary shares are stated at their par value.

### 2.17 Reserves

*Legal reserve*

A legal reserve is a compulsory reserve under the Law on Joint Stock Companies of the Republic of Lithuania. Annual transfers of 5 per cent of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, are required until the reserve reaches 10 per cent of the share capital. The Company has already fully formed reserve. The legal reserve cannot be distributed as dividends but can be used to cover any future losses.

*Revaluation reserve*

Revaluation reserve represents an increase in the carrying amount of property plant and equipment due to the first revaluation. The reserve upon its recognition is decreased by the amount of relating deferred income tax. The revaluation reserve included in equity is transferred to retained earnings (accumulated deficit) when it is realised. The revaluation reserve is realised on retirement or disposal of the asset or as the asset is used by the Company, i.e. the amount of reserve realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost.

### 2.18 Dividends

Dividends are recorded in the financial statements at the moment they are declared by the Annual General Shareholders’ Meeting.

### 2.19 Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowings.

## 2 Summary of accounting policies (cont'd)

### 2.20 Deferred income tax

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

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

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

### 2.21 Investments and other financial assets

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity financial assets, 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 or financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Related profit or loss on revaluation is charged directly to the income statement. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses respectively.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the 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. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*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 gains or losses 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.

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

**2 Summary of accounting policies (cont'd)**

**2.22 Offsetting**

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.

**2.23 Employee benefits**

*Social security contributions*

The Company pays social security contributions to the state Social Security Fund (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 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 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 recognised are recognised at present value discounted using market rate.

**2.24 Contingencies**

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

A contingent asset is not recognised in the financial statements.

**2.25 Subsequent events**

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

*(all amounts are in LTL '000 unless otherwise stated)*

## 3 Sales

| | 2006 | 2005 |
|---|---|---|
| Sales of electricity | 906 098 | 826 018 |
| Sales of reactive energy | 15 123 | 14 351 |
| Customers' connection fees (Note 17) | 3 558 | 2 412 |
| | **924 779** | **842 781** |

3 680 m kWh of electricity were sold in 2006, i. e. by 6,79% more than in 2005 (3 446 m kWh – in 2005). The increase was caused mainly by the increase in number of electricity users in the year 2006.

## 4 Other operating income

| | 2006 | 2005 |
|---|---|---|
| Profit on sales of materials | 1 485 | 1 569 |
| Services related to electricity | 1 182 | 867 |
| Rent and telecommunications income | 635 | 598 |
| Income from instalation works | 322 | 381 |
| Gain (loss) on disposal of property, plant and equipment | (373) | 154 |
| Other income | 600 | 395 |
| | **3 851** | **3 964** |

## 5 Other operating expenses

| | 2006 | 2005 |
|---|---|---|
| Cash collection expenses | 5 647 | 4 445 |
| Impairment and write-off of property, plant and equipment (Note 9) | 3 920 | 8 683 |
| Taxes other than income tax | 4 154 | 3 121 |
| Fuel | 4 017 | 3 990 |
| IT expenses | 1 097 | 1 433 |
| Impairment of receivables and prepayments | 558 | 1 041 |
| Net realisable value adjustment | (273) | 97 |
| Other expenses | 13 139 | 9 396 |
| | **32 259** | **32 206** |

## 6 Finance (costs) / income, net

| | 2006 | 2005 |
|---|---|---|
| Interest (expenses) | (16 781) | (16 760) |
| Loan administration (expenses) | (76) | (188) |
| Interest income | 5 196 | 4 262 |
| Penalties and fines received | 711 | 502 |
| Penalties and fines (paid) | (1) | (1) |
| Net foreign exchange (losses) | (4) | (14) |
| | **(10 955)** | **(12 199)** |

*(all amounts are in LTL ‘000 unless otherwise stated)*

## 7 Dividends

| | Year ended 31 December | |
|---|---|---|
| | **2006*** | **2005*** |
| Dividends declared | 128 308 | 118 084 |
| Weighted average number of shares | 3 718 | 3 718 |
| Approved dividends per share (expressed in LTL per share) | 34,51 | 31,76 |

* The year when dividends are approved

The shareholders of the Company declared dividens at LTL 128 308 thousand for the year 2005 (LTL 118 084 thousand for 2004). The major part of the amount was paid out in year 2006. The remaining liability to the shareholders of the Company as of 31 December 2006 amounts to LTL 6 555 thousand (LTL 5 642 thousand as of 31 December 2005) and is accounted for in trade and other payables in the balance sheet (Note 19).

## 8 Earnings per share, basic and diluted

| | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Net profit attributable to shareholders | 59 677 | 48 472 |
| Weighted average number of ordinary shares in issue (thousands) (Note 15) | 3 718 | 3 718 |
| Basic earnings per share (expressed in LTL per share) | 16,05 | 13,04 |

The Company has no dilutive potential ordinary shares and therefore the diluted earnings per share equal to basic earnings per share.

## 9 Property, plant and equipment

| | Buildings | Structures and machinery | Vehicles | Other property, plant and equipment | Construc-tion in progress | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2004** | | | | | | |
| Cost or revalued cost | 220 899 | 2 296 859 | 12 365 | 30 780 | 7 609 | 2 568 512 |
| Accumulated depreciation | (20 337) | (272 329) | (1 898) | (9 033) | - | (303 597) |
| Accumulated impairment | (286) | (3 966) | (39) | (129) | (4 850) | (9 270) |
| Net book value | 200 276 | 2 020 564 | 10 428 | 21 618 | 2 759 | 2 255 645 |
| **Year ended 31 December 2005** | | | | | | |
| Opening net book value | 200 276 | 2 020 564 | 10 428 | 21 618 | 2 759 | 2 255 645 |
| Additions | 2 069 | 11 713 | 20 821 | 537 | 94 708 | 129 848 |
| Disposals | (83) | (18) | (154) | (261) | - | ( 516) |
| Write-offs | 23 | (9 678) | 32 | 95 | 340 | (9 188) |
| Changes in impairment charge per year | 286 | 3 966 | 39 | 129 | 451 | 4 871 |
| Reclassifications between groups | 3 589 | 56 059 | 647 | ( 819) | (59 476) | - |
| Depreciation charge | (12 260) | (193 295) | (2 662) | (3 329) | - | (211 546) |
| Closing net book value | 193 900 | 1 889 311 | 29 151 | 17 970 | 38 782 | 2 169 114 |
| **At 31 December 2005** | | | | | | |
| Cost or revalued cost | 225 996 | 2 341 657 | 32 168 | 27 977 | 42 730 | 2 670 528 |
| Accumulated depreciation | (32 382) | (456 312) | (3 056) | (10 136) | - | (501 886) |
| Accumulated impairment | - | - | - | - | (4 399) | (4 399) |
| Net book value | 193 614 | 1 885 345 | 29 112 | 17 841 | 38 331 | 2 164 243 |
| **Year ended 31 December 2006** | | | | | | |
| Opening net book value | 193 614 | 1 885 345 | 29 112 | 17 841 | 38 331 | 2 164 243 |
| Additions | 1 776 | 3 258 | 9 513 | 1 650 | 124 916 | 141 113 |
| Disposals | (2 393) | (34) | (1 352) | (76) | (1 020) | (4 875) |
| Write-offs | (17) | (7684) | (13) | (132) | - | (7 846) |
| Changes in impairment charge per year | - | - | - | - | 3 926 | 3 926 |
| Reclassifications between groups | 3 369 | 70 993 | 24 | 3 311 | (77 697) | - |
| Depreciation charge | (11 275) | (195 731) | (6 839) | (3 625) | - | (217 470) |
| Closing net book value | 185 074 | 1 756 147 | 30 445 | 18 969 | 88 456 | 2 079 091 |
| **At 31 December 2006** | | | | | | |
| Cost or revalued cost | 227 612 | 2 401 231 | 32 386 | 31 443 | 88 929 | 2 781 601 |
| Accumulated depreciation | (42 538) | (645 084) | (1 941) | (12 474) | - | (702 037) |
| Accumulated impairment | - | - | - | - | (473) | (473) |
| Net book value | 185 074 | 1 756 147 | 30 445 | 18 969 | 88 456 | 2 079 091 |

*(all amounts are in LTL '000 unless otherwise stated)*

**9 Property, plant and equipment (cont'd)**

Based on the management decision to reduce the remaining useful lives for certain items of property, plant and equipment (see section 'Changes of depreciation rates of property, plant and equipment' below) additional depreciation in the amount of LTL 18 415 thousand is accounted for in the income statement for the year 2006. The effect for the year 2007 is estimated to be LTL 11 472 thousand. The Company has reversed construction in progress impairment in the amount of LTL 3 926 thousand (to cost value) as the projects impaired in the year 2005 started to be implemented in the year 2006. The increase in additions in construction in progress in 2006 is mainly due to the EU financed project for the implementation of infrastructure modernization of the Company (Note 17). Additions of construction in progress also include prepayments for property plant and construction in amount of LTL 2 289 thousand.

Depreciation is accounted for in operating expenses.

*Revaluation of property, plant and equipment*

The Company's property, plant and equipment (except for construction in progress) were revalued at 31 December 2003 by external independent appraisor, Ober-Haus Nekilnojamasis Turtas UAB, qualification certificate No. 000011 issued on 24 January 2000. The appraisor also determined values of property, plant and equipment as at 1 January 2003. Valuations were made on the basis of replacement cost. The increases and decreases in carrying amounts arising from the revaluation of property, plant and equipment (taking in to account an error correction as described in Note 2.1. above) are as follows:

| **At 1 January 2003 (Restated)** | **Buildings** | **Structures and machinery** | **Vehicles** | **Other property, plant and equipment** | **Total** |
|---|---|---|---|---|---|
| Increase in carrying amount | 68 778 | 1 435 323 | 2 561 | 6 489 | 1 513 151 |
| Decrease in carrying amount | (170 973) | (314 346) | (4 592) | (8 774) | (498 685) |
| | (102 195) | 1 120 977 | (2 031) | (2 285) | 1 014 466 |

The revaluation surplus amounting to LTL 1 513 151 thousand, net of applicable deferred income tax as of 1 January 2003 had to be credited to the revaluation reserve in shareholders' equity and LTL 498 685 thousand had to be debited to income statement.

If property, plant and equipment would not be revaluated, carrying values of property, plant and equipment as of 31 December 2006 and 2005 would be as follow:

| | **Buildings** | **Structures and machinery** | **Vehicles** | **Other property, plant and equipment** | **Total** |
|---|---|---|---|---|---|
| As of 31 December 2006 | 281 324 | 1 053 385 | 31 559 | 21 443 | 1 387 711 |
| As of 31 December 2005 (Restated) | 290 326 | 1 121 494 | 30 575 | 21 172 | 1 463 567 |

*Changes of depreciation rates of property, plant and equipment*

The Company changed estimates of useful lives of certain items of property, plant and equipment in 2006.

The Company has shortened useful lifes of the electricity lines and transformer substations that will be 100% reconstructed in the nearest future. The useful life was shortened until the start of reconstruction woks.

The impact of change in useful lives for the year 2006 and 2007 is estimated to be LTL 18 415 thousand and LTL 11 472 thousand, respectively.

*Property, plant and equipment acquired under financial lease*

Acquisitions of cars purchased through financial lease are accounted for under other property, plant and equipment. The net book value of this property in 2006 and 2005 amounted to LTL 108 thousand and LTL 151 thousand respectively.

*Fully depreciated assets still used by the Company*

As of 31 December 2006, the acquisition (revalued) cost of fully depreciated property, plant and equipment, but still in active use of the Company was LTL 381 252 thousand (LTL 71 204 thousand as of 31 December 2005).

*(all amounts are in LTL ‘000 unless otherwise stated)*

## 10 Intangible assets

| | Computer software |
|---|---|
| **At 31 December 2004** | |
| Cost | 7 060 |
| Accumulated amortisation | (5 665) |
| Net book value | 1 395 |
| **Year ended 31 December 2005** | |
| Opening net book value | 1 395 |
| Additions | 186 |
| Amortisation charge | (915) |
| Closing net book value | 666 |
| **At 31 December 2005** | |
| Cost | 7 056 |
| Accumulated amortisation | (6 390) |
| Net book value | 666 |
| **Year ended 31 December 2006** | |
| Opening net book amount | 666 |
| Additions | 885 |
| Amortisation charge | (895) |
| Closing net book value | 656 |
| **At 31 December 2005** | |
| Cost | 7 941 |
| Accumulated amortisation | (7 285) |
| Net book value | 656 |

Amortisation is accounted for in operating expenses.

## 11 Inventories

| | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Spare parts and supplies (at cost) | 13 028 | 19 519 |
| Electricity meters (at cost) | 1 676 | 2 634 |
| | 14 704 | 22 153 |
| Valuation allowance | (8 179) | (8 452) |
| | **6 525** | **13 701** |

The acquisition cost of the Company’s inventories accounted for at net realisable value as of 31 December 2006 amounted to LTL 8 179 thousand (LTL 8 452 thousand as of 31 December 2005). Changes in the allowance for inventories for the year 2006 and 2005 have been included into operating expenses.

## 12 Trade and other receivables

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2006** | **2005** |
| Trade receivables | (a) | 110 523 | 103 765 |
| VAT receivable | | - | 211 |
| Other receivables | (b) | 11 788 | 2 203 |
| Trade and other receivables, gross | | 122 311 | 106 179 |
| Impairment allowance for trade receivables | | (38 439) | (37 766) |
| Impairment allowance for other receivables | | (833) | (939) |
| | | (39 272) | (38 705) |
| | | **83 039** | **67 474** |

(a) The increase in trade receivables in 2006 is due to the increase in electricity sales.

(b) The Company has accounted for a grant receivable for the EU financed project for implementation of infrastructure modernization of the Company (Note 17) in the amount of LTL 10 023 thousand. The receivable was accounted for according to the Payment request dated 15 December 2006.

*(all amounts are in LTL ‘000 unless otherwise stated)*

### 13 Prepayments, deferred charges and accrued income

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| Accrued income from electricity supply | 7 409 | 6 788 |
| Accrued interest income | 136 | - |
| Prepayments for services | 201 | 1 059 |
| Other prepayments and deferred charges | 4 952 | 1 439 |
| | 12 698 | 9 286 |
| Impairment of prepayments | (26) | (34) |
| | **12 672** | **9 252** |

### 14 Cash and cash equivalents

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| Cash at bank and on hand | 7 213 | 11 744 |
| Short-term bank deposits | 6 000 | 8 000 |
| Bonds | 89 722 | 179 556 |
| | **102 935** | **199 300** |

As of 31 December 2006, cash and cash equivalents include LTL 12 674 thousand (as of 31 December 2005 – LTL 12 674 thousand) allowance for cash in banks under liquidation.

The effective interest rate for the short-term deposit is 3.65 % (in 2005 – 2.15 %). The term of this deposit is 18 days (in 2005 - up to 15 days).

As of 31 December 2006 the Company had bonds issued by AB Sampo Bankas with maturity 29 days and effective interest rate of 3.9% (in 2005 – 29 days and effective interest rate of 3.9%).

### 15 Share capital

As of 31 December 2006 and 2005, the Company’s share capital amounted to LTL111 540 thousand. As of 31 December 2006 and 2005, the share capital is divided into 3 717 998 ordinary registered shares of LTL 30 par value each. All shares are fully paid. The Company did not hold any of its shares.

On 15 April 2005 the shareholders of the Company decided to increase the share capital from LTL 3 718 thousand to LTL 111 540 thousand, by using LTL 107 822 thousand from the revaluation reserve and increased the par value of each share from LTL 1 to LTL 30. New by – laws were registered on 26 April 2005. Legal reserve was corrected according to the share capital increase in order to reflect the requirements of the Law on Joint Stock Companies and amounted to 10% of shareholders capital as of 31 December 2005.

### 16 Borrowings

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| Current borrowings | | |
| Current portion of non-current bank loans | 48 581 | 48 581 |
| Current bank loans | - | 51 791 |
| Financial lease liabilities | 44 | 42 |
| Current portion of other long term payables | 864 | - |
| | 49 489 | 100 414 |
| Non-current borrowings | | |
| Bank loans | 340 065 | 388 646 |
| Financial lease liabilities | 112 | 155 |
| Other long term payables | 6 914 | - |
| | 347 091 | 388 801 |
| Borrowings, total | **396 580** | **489 215** |

In April 2005 the Company took over a part of the syndicated loan originally granted by the banks to UAB NDX Energija in the amount of LTL 95 979 thousand by setting off dividends payable for 2004 to this shareholder. The Company has already taken over the liability of LTL 389 828 thousand of the same syndicated loan of the main shareholder UAB NDX Energija in December 2004. This loan is denominated in EUR and has to be repaid by 15 December 2011.

*(all amounts are in LTL '000 unless otherwise stated)*

### 16 Borrowings (cont'd)

As of 31 December 2006 the weighted average interest rate on long term borrowings (except for finacial lease) was 4.51 % (as of 31 December 2005 – 3.75 %) and on financial lease liabilities – 3.3 % (as of 31 December 2005 – 3.3 %). All financial liabilities are subject to variable interest rates. As of 31 December 2006 and 2005 the interest rate refixing periods on financial liabilities varied from 3 to 6 months.

The maturity of non-current borrowings (except for financial lease liabilities) was as follows:

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| Within one year | 49 445 | 48 581 |
| Within 2 to 5 years | 343 522 | 194 323 |
| After 5 years | 3 457 | 194 323 |
| | **396 424** | **437 227** |

Financial lease liabilities – minimum lease payments:

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| Within one year | 49 | 46 |
| Within 2 to 5 years | 117 | 163 |
| | 166 | 209 |
| Future interest expenses of financial lease | (10) | (12) |
| Current value of financial lease liabilities | **156** | **197** |

Other long term payables represent payable to Lietuvos Energija AB for the purchase of property, plant and equipment. According to the agreements, the Company has to repay the amount until the year 2015.

### 17 Deferred income

Deferred income relates to (1) contributions received from new customers for the assets installed; (2) recourses received from the

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| New customers connection income (1) | 100 899 | 67 592 |
| Advances for the connection of new customers (1) | 15 380 | 20 747 |
| Financing from EU funds (2) | 11 127 | 1 104 |
| Property, plant and equipment received at no consideration (less accumulated amortisation) (3) | 8 979 | 9 344 |
| | **136 385** | **98 787** |

Information about the connection income is presented below:

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| Opening balance | 67 592 | 36 705 |
| Property, plant and equipment related to new customers connection constructed per year | 36 865 | 33 299 |
| Recognised as income in the income statement | (3 558) | (2 412) |
| Closing balance | **100 899** | **67 592** |

Financing from the EU structural funds represents support received under the contract signed on 8 July 2005 for the implementation of infrastructure modernization of the Company. According to this project the Company is supposed to receive additionally LTL 17 581 thousand till the end of 2007. The increase comparing to 2005 is due to accrued subsidy in the amount of LTL 10 023 thousand according to the Payment request dated 15 December 2006.

Amortisation of deferred income related to property, plant and equipment received at no consideration in the amount of LTL 366 thousand in 2006 (LTL 366 thousand in 2005) decreased depreciation expenses of property, plant and equipment in the income statement.

*(all amounts are in LTL '000 unless otherwise stated)*

## 18 Deferred tax liability, net

| The change in the deferred income tax account is as follows: | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Components of income tax expenses (benefit): | | |
| Current year income tax expenses | 54 383 | 37 958 |
| Deferred income tax (benefit) | (30 459) | (38 710) |
| Income tax expenses (income) charged to the income statement | **23 924** | **(752)** |

| | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Components of deferred income tax asset : | | |
| New customers connection income | 15 229 | 10 357 |
| Accrued expenses | 1 746 | 1 675 |
| Impairment of assets (inventories and accounts receivable) | 7 133 | 7 079 |
| Deferred income tax asset before valuation allowance | 24 108 | 19 111 |
| Less: valuation allowance | (4 285) | - |
| Deferred income tax asset, net | **19 823** | **19 111** |
| Components of deferred income tax liability: | | |
| Property, plant and equipment revaluation and changes in depreciation rates | (208 047) | (233 753) |
| Sales cut off | (1 334) | - |
| Investment incentive | (16 735) | (19 597) |
| Deferred income tax liability | **(226 116)** | **(253 350)** |
| **Deferred income tax, net** | **(206 293)** | **(234 239)** |

Valuation allowance was made for part of the deferred tax asset that, in the opinion of the management, is not likely to be realised in the foreseeable future. In 2006 valuation allowance was made for the part of the deferred tax asset components – trade and inventory impairment, which according to the management will not be tax deductable in the future. 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 and are utilised simultaneously.

While assesing deferred income tax asset and liability components for the year ended 31 December 2005 the Company has used income tax rates of 19% and 18% for those items, which will be realised in 2006 and 2007, respectively, and 15% rate was used for the items which will be realised in 2008 and later (Note 2.6). Accordingly deferred tax as of 31 December 2006 was assessed using 18% for the items to be realised in 2007 and 15% for the items to be realised later. The amount of deferred tax liability realised in 2006 was higher than evaluated at year end 2005, therefore the deferred tax liability was reassessed as of 31 December 2006, giving the increase of liability in the amount of LTL 2 513 thousand booked into equity. Impact of change in income tax rates is presented below:

| | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Change in deferred income tax, calculated at 18%, 15% (2005:15%) | (27 946) | (39 017) |
| Change in assessment of deferred tax liability | (2 513) | - |
| Impact of change in income tax rate on revaluation reserve | - | (7 780) |
| Impact of change in income tax rate on deferred income tax liability change | - | 8 087 |
| | **(30 459)** | **(38 710)** |

*(all amounts are in LTL '000 unless otherwise stated)*

### 18 Deferred tax liability, net (cont'd)

The reported amount of income tax expenses attributable to continuing 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 19% for 2006 and 15% for 2005 to pretax income from continuing operations as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Income tax calculated at 19% (2005:15%) | 15 884 | 7 158 |
| Permanent differences | 1 242 | (8 217) |
| Change in assessment of deferred tax liability | 2 513 | - |
| Changes in valuation allowance | 4 285 | - |
| Effects of changes in income tax rate | - | 307 |
| Income tax (benefit) expenses charged to the income statement | **23 924** | **( 752)** |

### 19 Trade and other payables

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2006** | **2005** |
| Trade payables | | 83 301 | 105 181 |
| Dividends payable | | 6 555 | 6 360 |
| Wages, salaries and social security payable | | 1 184 | 1 077 |
| Taxes other than income tax | (a) | 3 628 | 17 |
| Other payables | | 31 | 38 |
| | | **94 699** | **112 673** |

(a) The increase in taxes payable is due to the increase in VAT payable by the end of 2006.

### 20 Advances and accrued charges

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2006** | **2005** |
| Accrued charges | (a) | 22 114 | 17 750 |
| Deferred income – advances received for the electricity | (b) | 5 569 | 559 |
| Other advances | | 638 | 689 |
| | | **28 321** | **18 998** |

(a) An accrued charges caption mainly contains accrued bonuses to employees and related social security taxes that amounted to LTL 4 668 thousand and LTL 8 400 thousand in 2006 and 2005 respectively. Moreover accrued payment to VĮ "Ignalinos atominė elektrinė" in the amount of LTL 14 679 thousand is accounted for in 2006 (LTL 6 094 thousand in 2005 ).

(b) The Company has deferred the estimated overdeclaration of electricity that took place in December 2006 due to the fact that the electricity prices were increased from 1 January 2007. The overdeclared amount was accounted for as advances for electricity received.

### 21 Financial risk management

*Credit risk*

The Company has no significant concentration of credit risk. Credit risk or the risk that the Company will not be able to recover amount receivable, is controlled by the application of credit terms and monitoring procedures.

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 bonds and trade receivables, net of allowance for doubtful accounts recognized at the balance sheet date.

The Company trades only with recognised third parties, so there is no requirement for collateral.

*(all amounts are in LTL '000 unless otherwise stated)*

## 21 Financial risk management (cont'd)

*Liquidity risk*

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 Company's liquidity and quick ratios as of 31 December 2006 were 1.09 and 1.05 respectively (1.14 and 1.08 as of 31 December 2005 respectively).

*Interest rate risk*

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

The major part of the Company's borrowings is with variable rates, related to EURIBOR and LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2006 and 2005.

*Foreign exchange risk*

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

*Fair value of financial instruments*

The Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term 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 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 accounts receivable, current trade and other accounts payable and short-term borrowings approximates fair value due to their relatively short maturity.

(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.

## 22 Commitments

*Operating lease commitments – the Company as a lessee*

The Company has concluded lease contracts for the lease of cars. The future aggregate minimum lease payments under operating lease agreements are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Not later than one year | 374 | 439 |
| Later than 1 year and not later than 5 years | - | 383 |
| | **374** | **822** |

*Capital commitments*

As at 31 December 2006, capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounts to LTL 15 625 thousand (LTL 41 200 thousand as of 31 December 2005).

*(all amounts are in LTL '000 unless otherwise stated)*

## 23 Cash generated from operations

When calculating cash flows from operations, the following main non-cash transactions were eliminated:

*In 2006*

EU subsidy receivable in the amount of LTL 10 023 thousand (Note 17).

*In 2005*

(1) Part of dividends payable for 2004 conversion to the syndicated loan, i.e. take – over of part of the syndicated loan from the main shareholder (Note 16).

(2) Payable for tangible fixed assets in the amount of LTL 8 232 thousand.

## 24 Related party transactions

*Transactions with Company's management*

In 2006 the total remuneration of the Company's management (6 managers) amounted to LTL 1 951 thousand (in 2005 – LTL 1 725 thousand to 7 managers). The management of the Company did not receive any loans, guarantees no other payments or property transfers were made or accrued.

*Transactions with other related parties*

Other related parties are the entities controled by shareholders of UAB NDX Energija.

Transactions with other related parties are presented below:

| (i) Sales of services (excl. VAT): | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Maxima LT, UAB (former UAB VP Market) | 14 445 | 10 465 |
| Akropolis, UAB | 8 388 | 1 511 |
| UAB Eurovaistinė (former UAB Eurofarmacijos vaistines) | 138 | 109 |
| | **22 971** | **12 085** |

| (ii) Purchase of goods and services (excl. VAT) | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| UAB Eurocom – communications services | 401 | 548 |
| UAB Ermitažas – tools purchase | 134 | - |
| UADBB CITO draudimas – insurance services | 131 | 170 |
| UAB NDX energija – consultation services | 65 | 27 |
| Maxima LT, UAB (former UAB VP Market) – gift vouchers and food products | 11 | 38 |
| | **742** | **783** |

*(all amounts are in LTL '000 unless otherwise stated)*

**24 Related party transactions (cont'd)**

| (iii) Payables and advances received | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Akropolis, UAB | 449 | 3 586 |
| UAB NDX energija | 4 | 27 |
| UAB Eurocom | 1 | 2 |
| Maxima LT, UAB (former UAB VP Market) | - | 47 |
| UADBB CITO draudimas | - | 10 |
| | **454** | **3 672** |

| (iv) Receivables | Year ended 31 December | |
|---|---|---|
| | **2006** | **2005** |
| Maxima LT, UAB (former UAB VP Market) | 1 151 | 980 |
| Akropolis, UAB | 419 | 220 |
| UAB Eurovaistinė (former UAB Eurofarmacijos vaistines) | 14 | 15 |
| | **1 584** | **1 215** |

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2006 and 2005, the Company has not made any provision for doubtful debts relating to amounts owned by related parties. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

VST
KAD GYVENTI BŪTŲ ŠVIESIAU

“VST” AB
**ANNUAL REPORT**
**2006**

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Register of Legal Persons

## Independent Auditors' Report to the Shareholder of Joint Stock Company VST

We have reviewed Joint Stock Company VST (further "the Company") Annual Report for the year ended 31 December 2006. The report is the responsibility of the Company's management. Our responsibility is to present report on the Annual Report based on our review.

We have audited the financial statements of Joint Stock Company VST for the year ended 31 December 2006 in accordance with International Standards of Auditing. On 28 February 2007 we have expressed unqualified opinion on these financial statements.

Our review of the Annual Report for the year ended 31 December 2006 was limited primarily to analytical procedures and discussions with the Company's personnel and was limited to financial information only. The scope of review provides less assurance than the audit for the purpose of expressing an audit opinion on this report. Accordingly, we do not express an audit opinion.

The Annual Report for the year ended 31 December 2006 includes operating plans and forecasts approved by the shareholder. The actual results in the future might be different from the current management's estimations as events and circumstances frequently do not occur as expected.

Based on our review, we have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

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

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

The audit was completed on 28 February 2007.

## ACTIVITY REVIEW

The key activity of "VST" AB (hereinafter referred to as *VST* or Company) is the distribution of electric power by medium and low voltage lines network and the supply of electric power to its consumers.

*Baltic Market Award*

In December 2006, the Company was among the best ones awarded for the Best Investor Relations in the Baltic Countries. The mission of the Baltic Market Awards project organized in Vilnius, Tallinn, and Riga was to identify the best Baltic market participants and to encourage listed companies to provide the market with quality disclosure. All listed companies in the Baltic countries and members of all three stock exchanges were evaluated. *VST* was awarded for its open, professional, and timely disclosure and for the usefulness of the information provided to its investors.

*Support Projects*

The NATIONAL DEVELOPMENT AWARD was established to foster the development of science, culture and business in Lithuania. The Company has joined the project becoming one of its participants and sponsors. At the end of May, Science Development, Partnership Development and Cultural Development Awards were given for the first time in Lithuania.

In August, the Company joined the project "I Want to See the World" becoming one of its sponsors. *VST* gives great importance to the support of socially vulnerable members of the society and continuously sponsors medical and child care institutions.

Each year, the Company supports St. John the Baptist Parish situated in Pakruojis often called the "Little Vatican". In 2006, *VST* supported disadvantaged children of the parish by funding their participation in various camps.

For the second consecutive year, the Company has been supporting Kaunas University of Technology. In order to ensure the quality of electrical engineering studies the Company donated state-of-the-art electro technical devices to the aforesaid university. Moreover, *VST* Scholarships are awarded to the best students of the Faculty of Electrical and Control Engineering. In the last two years, LTL 60,000 was allocated to the best 60 students.

The Company supports Skuodas Art School. Currently, a special publication featuring the history of the school is being prepared to commemorate its 40$^{th}$ anniversary in September.

For several years, the Company has been supporting the Department of Pediatric Diseases of Kaunas University of Medicine. Furthermore, *VST* donated LTL 30,000 worth of equipment for monitoring of vital functions to the Intensive Care Unit of the Department. Last year, *VST* support helped the Department of Pediatric Diseases to acquire equipment for haemodialysis, blood pressure and pulse measurement as well as electronic scales, vacuum cleaning devices, etc. Ten TV sets were also donated to the department making it feel like home for the young patients.

*Environmental Protection*

Annually the Company takes part in stork nest preservation efforts. Early last spring, nearly 200 stork nests were saved. Since the autumn of 2005, *VST* has raised approximately 400 stork nests on top of power transmission pylons. Moreover, The Company achieved an award for environmental protection on the occasion of the World Environment Day. The stork nest preservation efforts, which have been organized by energy specialists for several years already, are also favored by the Ministry of Environment of the Republic of Lithuania, which awarded the Company with a special prize for environmental protection.

*Customer Service Quality*

Customer service quality is one of underlying goals of the Company, thus, in 2006 the efforts were made in order to achieve it. It also contributed to the improved familiarity of current and potential customers with the Company's name.

In February, new modern customer service centres were opened in Šiauliai and Klaipėda. *VST* gives special importance to professional quality customer service and is constantly introducing customer service standards and improving its customer service culture across the units.

By launching an internet portal in March, *VST* introduced a user friendly, speedy and efficient way for its legal entity customers to pay for the power consumed. The portal enables legal entity customers of *VST* to provide meter data electronically and monitor the history of payments, debts and bills settled.

*Investment*

In October, the Company started one of the key projects of the year: the construction of the transformer substation in the centre of Kaunas. This 110/10 kV transformer substation will be the most modern of its kind in Lithuania. The Company has invested LTL 11 million into the construction of the substation.

Previously, *VST* customers would normally inform the experts of the Company about power outages. Following the installation of the SCADA (Supervisory Control and Data Acquisition) systems, the experts of the Company will be the first to know about any minor power fluctuations. The systems to be installed in Kaunas, Plungė, Radviliškis, and Šilalė will cost the Company more than LTL 13 million.

The Company continues modernization of transformer substations. Reconstruction of transformer substations in Plungė and Šeduva was completed already. The Company had allocated LTL 14.7 million for the modernization. In October, the reconstruction of Noreikiškės transformer substation was finished, too. The thorough reconstruction and modernization of the substation, which is situated in Kaunas area, required the investment of LTL 4.3 million. Also, investment projects worth millions of litas are being implemented in Tytuvėnai and Akmenė in order to ensure quality power supply to the customers of the Company. The modernization project of Salantai transformer substation situated in Klaipėda area is almost complete. The Company invested LTL 4.15 million into the renovation. Nearly 2,000 of *VST* customers are supplied with power from the aforesaid substation, including residents of Salantai and nine neighboring towns. Amaliai transformer substation is also under reconstruction. It distributes power to Dainava Clinic in Kaunas, several educational institutions, Girstupis Police Station and many other entities. LTL 8.7 million was invested into the reconstruction project.

Taikos transformer substation in the centre of Klaipėda is also being updated. The substation supplies power to 17,000 residents of Klaipėda and several major companies. Its reconstruction is close to being complete. *VST* has invested nearly LTL 10 million into the project.

*Cooperation*

*VST* continues to cooperate with policemen in Western Lithuania in order to take joint actions to prevent thefts of power cables and non-ferrous metals.

The Company provides development opportunities for students. Each year, around 50 students from various educational institutions are offered traineeships at *VST*. There were 45 student trainees at the Company during the first quarter of the year. Yet another several dozen of students were given development opportunities at *VST* in the summer of 2006. The year 2005 saw around 70 student trainees developing their skills at the Company. Almost half of them were students of Kaunas University of Technology. Most of the students get hands-on experience in the units that are directly related to Company activities, power distribution and supply.

*Adjustment of Equity Capital Structure*

On 22 December 2006, decisions were made concerning the equity capital structure and amendment of the statutes of the Company at the Extraordinary General Meeting of Shareholders. In order to reflect the effect of the hyperinflationary Lithuanian economy in 1991–1996 on the equity capital structure of the Company and taking into account the recount of the Company's fixed asset value according to the consumer price indices of 1991–1996, reviewed by the audit company *Ernst & Young Baltic UAB* (according to the report of 18 December 2006 "Concerning Annual Consumer Price Indices in the Republic of Lithuania Recorded in 1991–1996 and Fixed Asset Value Indexing Inconsistencies Set and Applied in Accordance with Resolutions of the Government of the Republic of Lithuania of 1991–1995 and the Influence of those Inconsistencies on the Asset Value") the decision was adopted to make an adjustment to the Company's remainder of the revaluation reserve on 31 December 2005, in the sum of LTL 268.40 million, by transferring the sum to the retained earnings, without changing the equity capital amount of the Company.

## ACTIVITY RESULTS

In 2006 the profit before taxes amounted to LTL 83.6 million. In the Report year the expenses of income tax were LTL 54.4 million, and the benefits of deferred income tax – LTL 30.5 million. The net profit of the company amounted to LTL 59.7 million in 2006.

*Revenues*

3 680 million kWh of electric power were sold to the consumers during 2006, 6.8 percent more comparing with 3 446 million kWh in 2005.

During the report year the income from sales and services except financial activities was LTL 928.6 million (in 2005 – LTL 846.7 million). The major part of income was from sales of electric energy.

| Income, LTL million | 2006 | 2005 | Change, % |
|---|---|---|---|
| Income from the sales of electric power | 906.1 | 826 | 10 |
| Sales of reactive energy | 15.1 | 14.3 | 6 |
| Income from connection of new consumers | 3.56 | 2.4 | 48 |
| Other income from operation | 3.85 | 3.96 | -3 |
| **Total:** | **928.6** | **846.7** | **10** |

In 2006 income from financial activities was LTL 5.9 million (in 2005 – LTL 4.8 million). The increase of financial income was determined by efficient management of cash flow and active use of short-term investment instruments.

*Expenditures*

In 2006 the Company's expenditure was LTL 834.1 million while in 2005 it was LTL 786.8 million. The biggest part of all expenditures consisted of electricity purchase and transmission expense (58.9 percent), the remaining part consisted of the relatively fixed expense for repairs, personnel etc. Repair and maintenance expense increased due to reconstruction and modernization works.

| Operating expenses, LTL million | 2006 m. | 2005 m. | Change, % |
|---|---|---|---|
| Purchase of electric power | 491.1 | 451.2 | 9 |
| Depreciation and amortization | 218 | 212.1 | 3 |
| Wages, salaries and social security | 50.6 | 57.2 | -12 |
| Repair and maintenance expenses | 36.6 | 27.8 | 32 |
| Taxes except for the profit tax | 4.2 | 3.1 | 35 |
| Utilities and communications expenses | 5.5 | 6.2 | -11 |
| Other | 28.1 | 29.2 | -4 |
| **Total:** | **834.1** | **786.8** | **6** |

In 2006 expenses of financial activities were LTL 16.86 million (in 2005 – LTL 16.96 million), the biggest part of it was interest expenses – LTL 16.78 million (in 2005 – LTL 16.76 million).

### Non-current assets

The carrying value of the non-current assets decreased from LTL 2 164.9 million in 2005 to LTL 2 079.7 million in 2006. The decrease was caused by the depreciation and amortization of the non-current assets, which were equal to LTL 218 million in 2006.

*Investments*

In 2006 LTL 139.7 million were invested into development and maintenance of electric power distribution network, 7.5 percent more as compared with LTL 130 million in 2005.

**Current assets**

The carrying value of current assets has decreased from LTL 289.7 million to LTL 205.2 million during the year 2006.

| The current assets of the company in the end of the year , LTL million | 2006 | 2005 | Change, % |
|---|---|---|---|
| Inventory | 6.52 | 13.7 | -52 |
| Trade and other receivables | 83.04 | 67.47 | 23 |
| Prepayments, deferred charges and accrued incomes | 12.67 | 9.25 | 37 |
| Cash and cash equivalents | 102.94 | 199.3 | -48 |
| **Total:** | **205.2** | **289.7** | **-29** |

**Borrowings**

Long term borrowings in the end of 2006 were equal to LTL 347.1 million, short term borrowings – LTL 49.5 million (in 2005 – LTL 388.8 million and LTL 100.4 million, respectively).

Also, in 2006 financial liabilities were augmented by the sums (short-term – LTL 864 thousand, long-term – LTL 6.9 million, total – LTL 7.8 million) paid to AB "Lietuvos energija" for acquired assets. These liabilities will be carried out during the period of ten years.

Financial liabilities for banks in the beginning of 2006 were LTL 489 million, while in the end of the year – LTL 388.6 million (table bellow shows Company's financial liabilities for banks in the end of 2006 and 2005).

| Lender | Currency | Value in balance sheet (2005 12 31) LTL million | Payback, LTL million | Value in balance sheet (2006 12 31) LTL million |
|---|---|---|---|---|
| AB bank "Hansabankas" | EUR | 17.3 | 17.3 | 0 |
| Nordea Bank Finland Plc Lithuania | EUR | 34.5 | 34.5 | 0 |
| Syndicated loan | EUR | 437.2 | 48.6 | 388.6 |
| **Total** | | **489** | **100.4** | **388.6** |

The Company has credit line contracts with AB bank "Hansabank", Nordea Bank Finland Plc Lithuania and SEB Vilnius bank. It gives the possibility to borrow LTL 107 million if needed.

## KEY RISK FACTORS

Production and sales of electric power in Lithuania is regulated by the state more than other industry branches. Top margins of service prices are set by the Commission of Prices and energy control of the Republic of Lithuania. Therefore the pricing policy of the company is not flexible enough. Unplanned changes in the political situation of the country and legal regulations would have a negative influence on the company's operation.

The key economic risk factor is insufficient capacity of the company and its contractors quickly eliminate the damages, which occur in result of natural calamities. Due to the disorders of electric power supply the incomes may be lost and losses may occur.

## INFORMATION CONCERNING ENVIRONMENT AND PERSONNEL

The public company "VST" is an electric power distribution company. Different from the electric power producing companies it hardly pollutes the environment. The chances of the issuer's operation limitations or its closedown due to the damages on the environment are really poor.

Due to personnel policy which promotes professionalism and loyalty of employees, "VST" AB is attractive to young and qualified specialist. Personnel trainings are largely financed, promotion schemes are successful and adjusted to needs of every level of employees. Furthermore, inner staff selections are organized and training and professional development system is functioning.

The implementation of innovative management principles, customer service quality standards is taking place in the Company. After privatization of the Company, organization structure was optimized, inner procedures were renewed and productivity of employees was improved.

## PURCHASE AND TRANSFER OF OWN SHARES

The Company has not purchased own shares before the report period and has not purchased own shares during the year 2006.

## SUBSIDIARY COMPANIES, PURCHASE OR SALES OF SHARES

The Company has no shares of other companies. There were no transactions made regarding purchase or sales of other companies' shares during the year 2006.

## INFORMATION ON THE BRANCHES OF THE COMPANY

In 2006 the Company had no branch offices or representations.

## PLANS AND FORECASTS OF THE COMPANY OPERATION

In 2007 the Company does not plan any changes in the key operation and is going to continue the distribution of electric power by medium and low voltage lines and the supply of electric power to the consumers.

"VST" AB plans to continue reconstruction and modernization works, and improvement of customer service quality.

## COMPLIANCE WITH THE GOVERNANCE CODE

The Company discloses its compliance with the Governance Code, approved by the Vilnius Stock Exchange for the companies listed on the regulated market, and its specific provisions in Annex 1.

Chief Executive Officer Darius Nedzinskas

28 February 2007

Annex 1

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

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

| PRINCIPLES/ RECOMMENDATIONS | YES/NO /NOT APPLICABLE | COMMENTARY |
|---|---|---|
| **Principle I: Basic Provisions**<br><br>**The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.** | | |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | YES | |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | YES | |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Not applicable | Supervisory body is not set up in the Company. |
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. | YES | |
| **Principle II: The corporate governance framework**<br><br>**The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.** | | |

| | | |
|---|---|---|
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | NO | Supervisory body is not set up in the Company, as after taking into account the structure of shareholders and the regulated activities of the Company, it is considered as not relevant. |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. | YES<br>NO | <br>Supervisory body is not set up in the Company. See 2.1. |
| 2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer. | NO | Supervisory body is not set up in the Company. See 2.1. |
| 2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1] | and YES, and NO | Supervisory body is not set up in the Company. See 2.1. The Company's Board partly acts according to the Principles III and IV. Further information about compliance with Principles III and IV is given below. |
| 2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2] | YES | Provided that "small group of individuals" is taken as a group of not more then two individuals. The Board is comprised of five members. The meeting of the Board has quorum when meeting is attended by at least 4 members of the Board. The resolution of the Board is adopted by a simple majority of members' votes. |

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

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

| | | |
|---|---|---|
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board. | Not applicable | Supervisory body is not set up in the Company. See 2.1. Non-executive directors are not elected in the Company. |
| 2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision. | NO | There are no restrictions for Chief Executive Officer to be a chairman of the Board in the Company. The Company thinks that Chief Executive Officer and the Board are executive bodies of the Company and above mentioned restriction would be not appropriate. |
| **Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting**<br><br>**The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]** | | |
| 3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders. | YES | The Board of the Company is elected by the General Shareholders Meeting according to the rules prescribed in the Law on Companies of the Republic of Lithuania. |

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

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| 3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report. | YES | |
| 3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body. | and YES, and No | All information about the Board members, the Company considers as necessary to disclose, is provided on the Company's site, in the Company's annual prospectus – report and in the other sources. Company thinks there is no necessity to provide similar information in the Company's annual report, because above mentioned information is already publicly available. |
| 3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. | NO | According to the Law on Companies of the Republic of Lithuania the issues concerning the Boards' formation is assigned to the General Shareholders Meeting. The Board has no legal opportunities to form it self.<br>The audit committee is not formed. |
| 3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge. | YES | There is no formal review to identify knowledge of the Board's members in the Company. However, the Board's members attend special seminars or courses, if there is a necessity. |

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| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members. | NO | In the Company's Articles of Association there are no provisions about independent members' elections to the Board. The Company thinks, such provisions are not necessary, as there is enough means provided by the laws to resolve all material conflicts of interest related with a member of the Board. Moreover, issues concerning Boards' formation are assigned to the General Shareholders Meeting and the independent member can be elected to the Board only if one gets enough shareholders' votes. |

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

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

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| 3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:<br><br>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;<br><br>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;<br><br>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);<br><br>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);<br><br>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such | NO | See 3.6. |

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| relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;<br><br>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;<br><br>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;<br><br>8) He/she has not been in the position of a member of the collegial body for over than 12 years;<br><br>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.<br><br>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. | | |

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| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | NO | See 3.6. |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed. | NO | See 3.6. |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration. | NO | See 3.6. |
| **Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting**<br><br>**The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.** | | |
| 4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8] | YES | |

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

[7] See Footnote 3.

[8] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

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| 4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | YES<br><br><br>NO | Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare.<br>Independent members of the Board are not elected, see 3.6. |
| 4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified. | YES | Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[10] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified. |
| 4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders. | YES | Where decisions of a collegial body may have a different effect on the Company's shareholders, the collegial body should treat all shareholders impartially and fairly.<br>Shareholders are being informed about Company's affairs, strategies, risk management and resolution of conflict of interest according to the requirements laid in the legislation.<br>The role of members of the Board when communicating with and committing to shareholders is established according to the requirements laid in the legislation. In the Company there is no regulations setting specific role of members of the Board when communicating with and committing to shareholders. |

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

[10] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

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| 4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision. | YES | Provided that independent members of the collegial body are not elected. |
| 4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[11]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. | YES | Provided that comities of the collegial body are not formed. |

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

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| 4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole. | NO | Independent members of the collegial body are not elected, see 3.6.<br>Comities are not formed, as the Company thinks the work of the Board is well organized and efficient enough. The Board itself can properly perform all the functions that, according to recommendations, should be assigned to the comities. |
| 4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence. | NO | Comities are not formed, see 4.7. |
| 4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory | NO | Comities are not formed, see 4.7. |

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| board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. | | |
| 4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion. | NO | Comities are not formed, see 4.7. |
| 4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities. | NO | Comities are not formed, see 4.7. |

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| 4.12. Nomination Committee.<br>4.12.1. Key functions of the nomination committee should be the following:<br><br>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;<br>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;<br>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;<br>• Properly consider issues related to succession planning;<br>• Review the policy of the management bodies for selection and appointment of senior management.<br><br>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee. | NO | Comities are not formed, see 4.7. |
| 4.13. Remuneration Committee.<br>4.13.1. Key functions of the remuneration committee should be the following:<br>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;<br>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;<br>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the | NO | Comities are not formed, see 4.7. |

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| management bodies;<br>• Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);<br>• Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.<br>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:<br>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;<br>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;<br>• Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.<br>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. | | |

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| 4.14. Audit Committee.<br><br>4.14.1. Key functions of the audit committee should be the following:<br>• Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);<br>• At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;<br>• Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;<br>• Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;<br>• Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;<br>• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.<br><br>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. | NO | Comities are not formed, see 4.7. |

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| 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.<br><br>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.<br><br>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.<br><br>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.<br><br>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved. | | |
| 4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. | NO | The Board does not conduct any formal assessment of its activities. Company's activities, as well as Board's activities, are assessed by shareholders' according to the rules prescribed in the legislation. |
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| **Principle V: The working procedure of the company's collegial bodies**<br><br>**The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.** | | |
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| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting. | YES | |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[12]. | YES | In order to guarantee an uninterrupted resolution of the essential corporate governance issues, the Board's meetings are held whenever it is necessary. |
| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution. | YES | |

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

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| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed. | Not applicable | Supervisory body is not set up in the Company, see 2.1. |
| **Principle VI: The equitable treatment of shareholders and shareholder rights**<br><br>**The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.** | | |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | YES | |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | YES | |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | NO | Negotiation and performance of transactions, such as transfer of property, investment, pledge and etc. are actions that substantially are treated as executive functions. Whereas management is attributed to the executive bodies, it is not assigned to General Shareholders Meeting. |

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

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| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them. | YES | |
| 6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance[14]. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | YES | |
| 6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | YES | |
| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies. | NO | The Company thinks that at this time there is no need to organize voting using means of modern technologies. Moreover, such organization of voting would require large amounts of investment. |
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[14] The documents referred to above should be placed on the company's website in advance with due regard to a 10-day period before the general shareholders' meeting, determined in paragraph 7 of Article 26 of the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574).

| Principle VII: The avoidance of conflicts of interest and their disclosure<br><br>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies. | | |
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| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | YES | |
| 7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting. | YES | |
| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | YES | |
| 7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on. | YES | |
| **Principle VIII: Company's remuneration policy**<br><br>**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.** | | |

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| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website. | NO | Statement of the Company's remuneration policy is not made, because, according to the Company's opinion, it is irrelevant and not obligatory according to the legislation. |
| 8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year. | NO | See 8.1. |
| 8.3. Remuneration statement should leastwise include the following information:<br>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;<br>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;<br>• Sufficient information on the linkage between the remuneration and performance;<br>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;<br>• A description of the main characteristics of supplementary pension or early retirement schemes for directors. | NO | See 8.1. |
| 8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies. | NO | See 8.1. |
| 8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. | NO | See 8.1. |

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| 8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory. | NO | See 8.1. |
| 8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.<br>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:<br>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;<br>• The remuneration and advantages received from any undertaking belonging to the same group;<br>• 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;<br>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;<br>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;<br>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.<br>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:<br>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;<br>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;<br>• 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;<br>• All changes in the terms and conditions of existing share options occurring during the financial year.<br>8.7.3. The following supplementary pension schemes-related information should be disclosed:<br>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;<br>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.<br>8.7.4. The statement should also state amounts that the | NO | See 8.1. |

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| company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate. | | |
| 8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. | NO | See 8.1.<br>New issue of shares and determination of minimal emission price, according to the legislation, is attributed to General Shareholders Meeting. All questions concerning issue of the Company's shares are met by General Shareholders Meeting. |
| 8.9. The following issues should be subject to approval by the shareholders' annual general meeting:<br>• Grant of share-based schemes, including share options, to directors;<br>• Determination of maximum number of shares and main conditions of share granting;<br>• The term within which options can be exercised;<br>• The conditions for any subsequent change in the exercise of the options, if permissible by law;<br>• All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. | | |
| 8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval. | | |

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| 8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting. | | |
| 8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website. | | |
| **Principle IX: The role of stakeholders in corporate governance**<br><br>**The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.** | | |
| 9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected. | YES | Stakeholders can participate in corporate governance in the manner prescribed by law of the Republic of Lithuania. |
| 9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. | YES | |
| 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information. | YES | |
| **Principle X: Information disclosure and transparency**<br><br>**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.** | | |

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| 10.1. The company should disclose information on:<br>• The financial and operating results of the company;<br>• Company objectives;<br>• Persons holding by the right of ownership or in control of a block of shares in the company;<br>• Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;<br>• Material foreseeable risk factors;<br>• Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br>• Material issues regarding employees and other stakeholders;<br>• Governance structures and strategy.<br><br>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. | YES<br>YES<br>YES<br>NO<br>YES<br>YES<br>NO<br>YES | All information listed in this recommendation, except information on members of the Company's Board, Chief Executive Officer of the Company and their remuneration and material issues regarding employees and other stakeholders is disclosed in the Company's annual prospectus – reports and Company's announcements. Information on members of the Company's Board, Chief Executive Officer of the company and their remuneration and material issues regarding employees and other stakeholders is disclosed as much as it is required by the legislation.<br>Additional information about the Company is provided on the Company's website. |
| 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. | NO | The Company discloses only information related to the Company. Information about whole group to which the Company belongs is disclosed by parent company. |
| 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. | NO | Information about the amount of remuneration received from the Company and other income with regard to members of the Company's management bodies and Chief Executive Officer is not disclosed, as in the Company's opinion, it is irrelevant and not obligatory according to the legislation. |
| 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure. | NO | Information related to stakeholders, the Company considers as necessary to disclose, is provided on the Company's website and in the press releases. The Company thinks that there is no need to disclose the same information in the Company's annual reports or by other special means. Moreover, such discloser is not obligatory according to the legislation. |
| 10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions. | YES | |

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| 10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well. | YES | |
| 10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too. | YES | |
| **Principle XI: The selection of the company's auditor**<br><br>**The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.** | | |
| 11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | YES | |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting. | YES | |
| 11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting. | YES | |

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