VST, AB

Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius, Lithuania

2008-02-19

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we Aidas Ignatavičius, Chief Executive Officer of VST, AB, and Lina Minderienė, Chief Financial Officer of VST, AB, hereby confirm that, to the best of our knowledge, the attached VST, AB Annual Report for the year 2007 includes a fair review of the development and performance of the business.

Chief Executive Officer	Aidas Ignatavičius
Chief Financial Officer	Lina Minderienė

KAD GYVENTI BŪTŲ ŠVIESIAU

VST, AB

ANNUAL REPORT

2007

ERNST & YOUNG

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PVM mokėtojo kodas LT108784411
Registras – Juridinių asmenų registras

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Code of legal person 110878442
VAT payer code LT108784411
Register of Legal Persons

Independent Auditors' Review Report on Annual Report of Joint Stock Company VST

We have reviewed Joint Stock Company VST (hereinafter the Company) Annual Report for the year ended 31 December 2007. 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 2007 in accordance with International Standards of Auditing. On 19 February 2008 we have expressed unqualified opinion on these financial statements.

We have read the Annual Report for the year ended 31 December 2007 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

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

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

The review was completed on 19 February 2008.

GENERAL INFORMATION ABOUT THE ISSUER

Accounting period covered by the Annual Report

The Report has been prepared for the year 2007 (the financial year of the company corresponds to the calendar year).

Key data on the Issuer

Name of the company :	VST, AB
Address of its headquarters :	Jasinskio str. 16 C, LT-01112, Vilnius
Telephone:	(8~5) 278 12 59
Fax:	(8~5) 278 12 69
E-mail address:	vst@vst.lt
Website :	www.vst.lt
Share capital:	111 539 940 LTL
Legal-organizational form :	Legal body, joint stock company
Registration with the Register of Enterprises :	
- Place of registration:	Ministry of economy
- date of registration :	December 31, 2001
- Register code:	1108 70748
- Former code:	1087074
Registrant of the Register of legal bodies :	State Enterprise Centre of registers

Nature of the main activity

Branch of Economy:	Energy sector
Main production :	Distribution of electric energy via medium and low voltage network and the electricity supply services for public consumers

Contracts with the mediators of securities of public circulation

The VST, AB and the joint stock company bank "Hansabankas" have signed a contract on accounting of securities issued by VST, AB , and handling personal accounts of securities.
AB bank "Hansabankas"
Savanorių av. 19,
LT-03502 Vilnius
Tel.: 8-5 268 44 85
Fax: 8-5 268 41 70

Securities included into the trade lists of stock exchanges

Ordinary registered shares of the VST, AB (3 717 998 pcs., total par value 111 539 940 LTL) are included into the Baltic Secondary list of Vilnius Stock Exchange. Security code is 12637. Shares of the VST, AB are not included into other lists of stock exchanges.

ISIN code	Sales list	Number of shares, pcs.	Par value of a share, Lt	Total par value, LTL
LT0000126377	BALTIC I-LIST	3 717 998	30	111 539 940

ACTIVITY REVIEW, ESSENTIAL EVENTS OF THE ACCOUNTING PERIOD

Change of the company's head

From August 6, 2007 Aidas Ignatavičius has been appointed as a Chief Executive Officer of the stock company VST replacing Darius Nedzinskas. Aidas Ignatavičius has been elected as a new Chief Executive Officer of VST by a unanimous assent of the Board members. Previously he was Director of Power Supply and Branch Management Division of the stock company VST.

Support projects

The company provides support fostering the progress – innovative science, education and culture projects.

Last year, the Company for the second time became a Maecenas of the project *National Progress Premium* promoting the growth of Lithuanian science, culture, business and society and a Maecenas of the fourth annual spring project *Lietuvos garbė* (Honour of Lithuania) of TV3 Service *Žinios*. This action has reflected the Company's policy to support progress in science and innovative ideas.

The Company is an active participant of the project *Gift for the Future* initiated by the Ministry of Education and Science together with the information technologies company *Microsoft Lietuva*. Computers that were not used by the company were upgraded and modernised and last year delivered to children of the Kaišiadorysi district Žąsliai secondary school, Smalininkai special school, Kaunas nursery *Spindulėlis* and day centre founded by Pamūšio St. Antanas Paduvieties parish. The Company granted 50 computers to the project.

Support provided by the Company is oriented towards the regions where VST carries out its main activities – distributes and supplies electricity. Supporting holidays and festivals in the regions the Company aims to create closer relations with urban and settlement communities. Last year, the Company became a sponsor of Skaudvilė (Tauragė district) festival and the city festivals of Jurbarkas, Radviliškis, Žagarė and other towns.

Annually, the Company allocates nominal scholarships to the most prospective students from the Faculty of Electrical and Control Engineering of Kaunas University of Technology. It is the fourth year when 30 most advanced and promising students from Departments of Electric Power Systems, Process Control and Control Technology of KTU Electrical and Control Engineering Faculty traditionally get premiums of LTL 1000. It is not the first time the Company allocates financial support to Kaunas University of Technology, donates modern electro-technology devices, but together with the researchers working there it has developed modified transformer oil.

Social projects

It is the second year, the Company supports the project *I Want to See the World* where funds are collected for Lithuanian children with visual disabilities.

The Company VST is a regular patron and supporter for children living in care homes. Major share of financial support granted by the Company is dedicated to improve the living conditions for children in care homes.

Attracting public's attention to young aged victims of electric current, the VST has initiated educative lessons *I Make Friends with Electricity but not Play with It* for children in care homes. Over 500 children of different age from care homes visited the Company's units in Kaunas, Klaipėda and Šiauliai regions where they learnt about dangerous work of an electrician, got familiar how to deal with electrical appliances in a safe way and to protect one's own and other's life.

Cooperation

Trying to protect property and clients from possible troubles in electricity supply it is some years already the Company fights with thieves of transformer oil and electricity wires. Active prevention against thefts is being performed. The Company's transformersare filled in with modified oil, residents are informed about the danger of the modified oil, cooperation with police officers is ensured, raids to metal scrap dealers are organised and security of electric substations is strengthened.

Environment Protection

Majority of feather birds staying in Lithuania fly to its Western part, therefore the Company continues campaign for preservation of stork nests. From autumn 2005, the Company at its own expenses raised 550 stork nests on special poles on the top of power transmission pylons. The most active work took place during last year in the region of Klaipėda where 96 stork nests were raised. VST raised 61 stork nests on metal poles in the region of Kaunas and about 50 stork nests were removed from the most dangerous places in the region of Šiauliai. Mostly safe nests were installed in the districts of Kaišiadorys, Šilutė and Šilalė. The Ministry of Environment assessed the campaign for preservation of stork nests and in 2006 awarded the Company with a prize for environment protection on the event of the World Environment Day.

The Company puts investments to depreciated distribution networks what proves its great attitude to ecologically clean installations that do not pose any danger to the environment and people. Rainwater and oil collection equipment is installed in the renovated transformer substations that prevent the soil and urban sewerage from pollutants.

Investments
Last year, the Company's main investments were dedicated to the quality improvement of services provided and customer service. During last year the Company invested nearly 140 million litas into the modernisation of electric networks in Kaunas, Klaipėda and Šiauliai regions. Most investments were allocated for the upgrading and modernisation of electrical power economy.

Last year, the renovation of 5 transformer substations - Amalių, Taikos, Tytuvėnų, Šeduvos, Akmenės – were finished and a new one transformer substation *Nemunas* in Kaunas was constructed with the value of more than 12 million litas. The reconstruction of two power substations *Gedminų* in Klaipėda and *Miglos* in Mažeikiai will be finished this year. These are large energy objects, the renovation and construction of which totalled to the VST Company last year more than 30 million litas.

Last year, the Company constructed 301 new and repaired 1113 (6-10 kV) transformer substations. The Company's specialists wired more than 500 kilometres of new overhead and cable lines from which even 457 kilometres are underground cable lines that allow ensuring the quality of electricity supply under any weather conditions. 2952 kilometres of electricity lines were repaired.

The largest investments last year were allocated to Klaipėda region. Last year investments amounted to more than 60 million litas in Klaipėda region, nearly 50 million in Kaunas region and nearly 30 million litas in Šiauliai.

The Company renovates in principle the depreciated electric power substations and constructs new ones, installs long-lived, modern electricity equipment meeting quality standards that ensure reliable power supply under any weather conditions, it also searches for new technological solutions assuring constant control over the distribution networks in use, quick removal of incidents and prevent the disturbances in power supply.

Quality of customer service
Improvement of customer service culture and quality of services remains among the priority tasks of the Company.

Last year quality of customer service was constantly improved and modern customer service centres were opened in Kaišiadorys, Kretinga, Pakruojis and Gargždai. All services in customer service centres are provided in a centralised way. The work is based on one-stop-shop principle – all required information and help is provided to clients operatively, professionally and in one place.

"Joint account" service is introduced. The Company concludes a general electric power sale-purchase agreement with the legal entities that have several objects consuming electric power within the territory served by the VST. Joint account service was introduced last year to ease the work of the Company's clients.

In May last year, the Company introduced a new service - remote scanning of accounting installations data - to its clients, i.e. legal entities having automatic meters. The amount of electric power consumed by service receivers is automatically scanned in the remote way and invoice is issued following the actual consumption during that month. This allows to save customers' time.

Seeking to ensure an operative and professional service provided to the Company's clients, initiatives and ideas of employees are considered in developing customer service principles. Employees have developed themselves main principles for customer service and the customer service specialists observe them in their daily work.

Training of customer service specialists was organised last year as well as the survey of a secret buyer was carried out and its results were analysed and discussed with employees.

ACTIVITY RESULTS

In 2007 the profit before taxes amounted to LTL 74,8 million. In the Report year the expenses of income tax were LTL 41,0 million, and the benefits of deferred income tax – LTL 33,4 million. The net profit of the company amounted to LTL 67,2 million in 2007.

Revenues

3 947 million kWh of electric power were sold to the consumers during 2007, 7,2 percent more comparing with 3 683 million kWh in 2006.

During the report year the income from sales and services except financial activities was LTL 1059,3 million (in 2006 – LTL 929,7 million). The major part of income was from sales of electric energy.

Income, LTL million	**2007**	**2006**	**Change, %**
Income from the sales of electric power	1033,2	906,1	14
Sales of reactive energy	15,8	15,1	5
Income from connection of new consumers	4,7	3,6	31
Other income from operation	5,6	4,9	14
Total:	**1059,3**	**929,7**	**14**

In 2007 income from financial activities was LTL 8,2 million (in 2006 – LTL 5,2 million). The increase of financial income was determined by efficient management of cash flow and active use of short-term investment instruments.

Expenditures

In 2007 the Company's expenditure was LTL 974,1 million while in 2006 it was LTL 834,4 million.

The biggest part of all expenditures consisted of electricity purchase and transmission expense (59,7 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	**2007**	**2006.**	**Change, %**
Purchase of electric power	581,4	491,1	18
Depreciation and amortization	284,5	218,0	31
Wages, salaries and social security	56,0	50,7	11
Repair and maintenance expenses	39,4	36,6	8
Taxes except for the profit tax	1,4	4,2	-67
Utilities and communications expenses	5,7	5,4	6
Other	5,6	28,5	-80
Total:	**974,1**	**834,4**	**17**

In 2007 expenses of financial activities were LTL 18,56 million (in 2006 – LTL 16,86 million), the biggest part of it was interest expenses – LTL 18,48 million (in 2006 – LTL 16,78 million).

Non-current assets

The carrying value of the non-current assets increased from 2 079,7 million LTL in 2006 to 2 735,8 million LTL in 2007. The increase was because of the Company's property, plant and equipment (except for construction in progress) was revalued as at 1 January 2007 by external independent appraiser, Ober-Haus Nekilnojamasis Turtas UAB. Valuations were made on the basis of replacement cost, except for other assets (with no business specific features) that were revalued using comparable price method. Some of the objects, that service duration time was reduced to reconstruction date by the Company in 2006, were revalued by the Company itself considering replacement costs and values provided by the independent appraiser.

Investments

In 2007 LTL 140,0 million were invested into development and maintenance of electric power distribution network (LTL 139,7 million in 2006).

Current assets

The carrying value of current assets has increased from LTL 205,2 million to LTL 315,3 million during the year 2007.

The current assets of the company in the end of the year , LTL million	2007	2006	Change, %
Inventory	7,8	6,5	20
Trade and other receivables	89,8	83,0	8
Prepayments, deferred charges and accrued incomes	11,3	12,7	-11
Cash and cash equivalents	206,4	102,9	101
Total:	**315,3**	**205,2**	**54**

Borrowings

Long term borrowings in the end of 2007 were equal to LTL 298,9 million, short term borrowings – LTL 80,4 million (in 2006 – LTL 347,1 million and LTL 49,5 million, respectively).

Financial liabilities for banks in the beginning of 2007 were LTL 388,6 million, while in the end of the year – LTL 377,7 million (table bellow shows Company's financial liabilities for banks in the end of 2007 and 2006).

Lender	Currency	Value in balance sheet (2006 12 31) LTL million	Payback, LTL million	Value in balance sheet (2007 12 31) LTL million
Nordea Bank Finland Plc Lithuania	EUR	0	0	34,5
Syndicated loan	EUR	388,6	45,5	343,2
Total		**388,6**	**45,5**	**377,7**

The Company has overdraft contracts with AB bank "Hansabank", Nordea Bank Finland Plc Lithuania and SEB bank, AB. It is possible for the Company to borrow up to LTL 107 million using overdraft contracts. In the end of 2007 the Company's overdraft borrowings amounted for LTL 34,5 million.

KEY RISK FACTORS

Production and sales of electric power in Lithuania is regulated by the state more than other industry branches. Price caps for services are set by the National Control Commission for Prices and Energy. 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.

REFERENCES AND ADDITIONAL EXPLANATIONS ABOUT THE INFORMATION PROVIDED IN THE ANNUAL FINANCIAL ACCOUNTABILITY

All other information is provided in Company's audited financial accountability report for the year 2007 notes to the financial statements.

TOTAL NUMBER OF OWN SHARES, THEIR NOMINAL VALUE AND SHARE IN COMPANY'S SHARE CAPITAL THAT THE COMPANY HAS PURCHASED AND OWNS

Company has not purchased own shares until and during the year 2007.

NUMBER OF OWN SHARES, THEIR NOMINAL VALUE AND SHARE IN COMPANY'S SHARE CAPITAL THAT THE COMPANY HAS PURCHASED AND TRANSFERRED DURING THE ACCOUNTING PERIOD

Company has not purchased or transferred its'own shares during the year 2007.

INFORMATION ON PAYMENT FOR OWN SHARES IF THESE SHARES WERE PURCHASED OR TRANSFERRED WITH CHARGE

Company has not purchased or transferred its'own shares during the year 2007.

REASONS FOR PURCHASING OWN SHARES DURING THE ACCOUNTING PERIOD

Company has not purchased own shares during the year 2007.

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 2007.

INFORMATION ON THE BRANCHES OF THE COMPANY

In 2007 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.
Company plans to continue reconstruction and modernization works, and improvement of customer service quality.
In the next year it is forseen to consistently improve the quality of services provided, reduce electricity consumption and expenditure on in-house needs, combat thieves of electricity cables and transformer oil, simplify and shorten the procedures of the provision of services, and develop new services.
In order to cut the costs of electric power and expences of own needs, obsolete and unsufficient power metering equipment is being replaced in the Company, regular checks of metering equipment are carried out, electric power consumption analyses are made, the metering equipment is relocated externally, meter readings are recorded, maintenance of medium-voltage transformers is carried out, etc.
The wire theft rates have grown due to the increased metal buy-up prices (in recent years the price for aluminium wire scrap has increased by LTL 2.5 per kg on average). Actual prevention of thefts is one of the key objectives of the Company. The preventive methods to be implemented include the filling of the Company's transformers with modified oil, increasing public awareness of the threats posed by using modified oil, spot checks of metal scrap buying points, reinforcing the protection of transformer substations etc.
It is planned that the investment volume in the year 2008 will be like the year before.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company didn't implement research and development activities in 2007. In 2008 it is planned to order a research studio of electric power development in Sitkūnai-Kumpiai-Giraitė surrounding area for 100.0 thous. LTL. Another studio for 19.6 thous. LTL is reserach activities of Palanga and Šventoji electric power network.

FINANCIAL RISK MANAGEMENT

All information is provided in Company's audited financial accountability report for the year 2007 notes to financial statements, comment 21.

SHARE CAPITAL STRUCTURE

Share capital has not been changed during the reported period and amounted to 111 539 940 LTL (registration date: 26 April, 2005).
All shareholders of the Company have equal rights (interest and non-interest), provided by the Law on Companies of the Republic of Lithuania and by Company's Articles of Association. Company's Articles can be found in the Company's internet site www.vst.lt, in the segment „About the Company".
None of the shareholders of the Company have any special controlling rights, all shareholders have equal rights.

Type of shares	Number of shares	Par value (LTL)	Total par value	Part in the share capital (%)
Ordinary registered shares	3 717 998	30	111 539 940	100.00
Total:	3 717 998	-	111 539 940	100.00

All shares of the company are fully paid.

RESTRICTIONS ON THE TRANSFER OF THE SECURITIES

It is not known about any restrictions on the transfer of the securities.

SHAREHOLDERS

The number of the shareholders on the accounting day (December 31, 2007) was around 4 168.

The biggest shareholders, which hold under ownership right or control more than 5 percent of the share capital of the Issuer

Full names of the shareholders (names of companies, types, headquarter addresses, companies' register code)	Number of ordinary registered shares, pcs .		Part of the share capital and votes , percent		
	Total	Including shares owned by the shareholders under the ownership right	Total	Including ordinary registered shares hold by a shareholder under the ownership right	Together with persons acting in corporate , percent
UAB „NDX energija" Ozo str. 25, LT – 07150 Vilnius, 126211233	3 610 159	3 610 159	97.10	97.10	-

SHAREHOLDERS WITH SPECIAL CONTROLLING RIGHTS AND THE DESCRIPTION OF THESE RIGHTS

There are no shareholders of the Company, having special controlling rights. All shareholders of the Company have equal rights (turtines ir neturtines), provided in the Law on Companies of the Republic of Lithuania and Company's Articles of Association.

RESTRICTIONS ON VOTING RIGHTS

It is not known about any restrictions on voting rights.

AGREEMENTS BETWEEN THE SHAREHOLDERS, KNOWN BY THE ISSUER, AND THAT MAY LIMIT THE TRANSFER OF THE SECURITIES AND (OR) VOTING RIGHTS

It is not known about any agreements between the shareholders of the Company that may limit the transfer of the securities and (or) voting rights.

EMPLOYEES

In 2007, the average number of employees of the public limited liability company VST was 1885, and it decreased by 4.2 percent (1968) as compared to the previous financial year. In 2007, the number of executive staff and specialists in the company accounted for 1297 (2.8 percent less than in 2006, when the number reached 1329), and the number of workers was 588 (8 percent less than in 2006, when the number reached 639). Decrease in the number of workers was determined by optimisation of the company's organisational structure, improving efficiency of operations and labour productivity after privatisation.

The structure of the company's employees by education is as follows: 31.3 percent with higher university education, 50.5 percent with higher non-university education, post-secondary, special secondary, technical or vocational education, and 18.2 percent with secondary or lower than secondary education.

Constantly increasing average wage of the company's employees grew by 12 percent to LTL 1993 in 2007 (grew by 14 percent in 2006, and 10 percent in 2005). The average monthly wage of workers was LTL 1592, and specialists and managers - LTL 2170.

The implementation of the annual system of assessment of operations was continued in 2007. The company also pursued the preventive staff policy oriented to the development of employees' professionalism and loyalty. In-house selection was further organised with a view to promoting employees to realise their professional goals and ambitions in other positions. 17 in-house selections were held in 2007. About 12 percent of employees changed their positions, of them 7.7 percent (141 employees) were promoted, 24 employees moved to executive (or senior executive) positions. This realistic career and development opportunity is very attractive to young specialists. The company also implements the study financing programme which partially (50 percent) finances academic studies in electrical engineering.

VST closely cooperates with academic institutions, and accepts students for professional traineeship. In 2006 and 2007, more than 100 representatives of academic youth improved their practical skills in the company. Most trainees (83 percent) are accepted to divisions which are directly related to the company's activity, electricity distribution and supply. Trainee students come from different educational establishments – Kaunas University of Technology, Šiauliai University, Vilnius University, Kaunas Technical College, Šiauliai College, and Vilnius College in Higher Education.

The collective agreement signed on 20 August 2004 was valid in the company till 20 August 2007. The aim of the collective agreement is to ensure efficient operation of the company, and to represent all employees of the company. It stipulates work, working conditions, payment, social and professional terms and guarantees. As laid down in the collective agreement, the annual conference of representatives of employees was organised to discuss performance of the agreement. Representatives of employees admitted that the employer followed all provisions of the collective agreement. Negotiations with representatives of employees on the draft of the new collective agreement are currently in the process. The company continues to provide its employees with all social guarantees set forth in the expired agreement, as well as additional guarantees. VST supports employees' cultural and sports activities organised by trade unions. In 2007, like in the previous year, it allocated LTL 17,000 for the trade unions.

The consistent staff policy is oriented to the implementation of the strategic goals of the company. Employee training and qualification upgrading were the focus of the company in the accounting year – it allocated about LTL 366,000 for the development of employees' competencies. 528 employees (28 percent of all employed in the company) participated in training. 66 percent of all organised training was external training provided by licensed training institutions, and 34 percent was in-firm training.

The main training directions – development of leadership, professional and qualification upgrading training – were continued in 2007. All executives took part in the consistent cycle of leadership training. The 2007 cycle of leadership training laid emphasis on the topics of personal efficiency, professional communication, public rhetoric, and other management and leadership issues.

Like in the previous years, employees' professional development was the focus of attention. Professional training to acquire or develop specific qualifications and skills necessary for safe and professional execution of dangerous and potentially dangerous work was organised. The fields of professional training were similar to the previous years. The training was mainly provided to managers of steeplejack works, steeplejack workers, managers of lifting crane works, operators of mobile hoists, workers on lifting platforms, logging workers, welders, and construction technical maintenance managers. Over 100 employees updated their knowledge of electrical engineering and familiarised themselves with innovations in the field.
Over 130 employees who directly deal with clients improved their communication skills in the training courses on effective customer service.
Various qualification courses were also organised, and they were oriented to meet specific business needs, for example, employees attended different conferences in both Lithuania and abroad according to their field of expertise.

PROCEDURE FOR AMENDMENT OF THE ISSUER'S BY-LAWS

According to the By-laws of VST, AB, By-laws of the company could be amended only by General Meeting of Shareholders and come into force after registering in the State Enterprise Centre of Registers.

THE MANAGING BODIES OF THE ISSUER

The managing bodies of the company are general meeting of the shareholders, the Board and Managing Director.
The last amendments of the Bylaws of the company (dated January 18, 2007) sets forth that the Board consists of 5 members. The members of the Board with the Office term of 4 years are elected by the general meeting of the shareholders.
Managing Director is appointed and recalled by the Board of the Company.

MEMBERS OF THE MANAGING BODIES OF THE ISSUER

Board in the period 28/10/2005-26/10/2007

Full name	Position	Share of owned capital, %.	Share of votes, %
Darius Nedzinskas	Chairman	-	-
Antanas Poška	Member	-	-
Arūnas Bivainis	Member	-	-
Aidas Ignatavičius	Member	-	-
Rytis Borkys	Member	0%	0%

Board in the period 26/10/2007 to the day of the Report preparation

Full name	Position	Share of owned capital, %.	Share of votes, %
Aidas Ignatavičius	Chairman	-	-
Lina Minderienė	Member	-	-
Gytis Kundrotas	Member	-	-
Rytis Borkys	Member	0%	0%

Administration

Full name	Position	Share of owned capital, %	Share of votes, %.
Darius Nedzinskas	Managing Director (15/02/2005-06/08/2007)	-	-
Aidas Ignatavičius	Managing Director (since 06/08/2007)	-	-
Lina Minderienė	Chief book –keeper, Head of the Accounting department (15/02/2005-29/10/2007)	-	-
Rimantas Bartuška	Chief book –keeper, Head of the Accounting department (since 29/10/2007)	-	-

Data about participation in the activities of other companies, institutions and organizations

Full name	Name of the company, institution or organization, position	Share of capital and votes in other companies , %
Lina Minderienė	-	-
Darius Nedzinskas	-	-
Antanas Poška	-	-
Arūnas Bivainis	-	-
Aidas Ignatavičius	-	-
Rytis Borkys	-	-
Gytis Kundrotas	-	-
Rimantas Bartuška	-	-

Information about payment, other transferred asset and provided guarantees to the members of managing bodies (Council of Observers, Board and members of Administration)

2007	Salary, LTL	Bonuses, LTL	Other payments from profit, LTL	Other transferred asset and provided guarantees, LTL
In average per one member of the Board *	-	-	-	-
Totally for all Board members *	-	-	-	-
In average per one member of Administration	241 811	-	-	-
Totally for all members of Administration	483 622	-	-	-

* Members of the Board do not receive salary for the execution in the Board activity.

SIGNIFICANT AGREEMENTS, PARTY OF WHICH IS THE ISSUER AND WHICH WOULD INURE, CHANGE OR INTERMIT IN CASE OF CHANGE OF CONTROL OF THE ISSUER

Company has no significant agreements that would inure, change or intermit in case of change of control of the Company.

AGREEMENTS BETWEEN THE ISSUER AND IT'S MEMBERS OF MANAGING BODIES OR EMPLOYEES THAT COVER COMPENSATION IN CASE OF THEIR RESIGNATION OR DEPOSITION WITHOUT JUST REASON OR TERMINATION OF JOB BECAUSE OF CHANGE OF CONTROL OF THE ISSUER

Company has no agreements between the issuer and it's members of managing bodies or employees that cover compensation in case of their resignation or deposition without just reason or termination of job because of change of control of the Company.

RELATED PARTY TRANSACTIONS

Information about related party transactions is provided in audited financial accountability report for the year 2007 notes to financial statements, comment 24.

E ESSENTIALS EVENTS WHICH TOOK PLACE AFTER THE END OF THE PAST FINANCIAL YEAR

2008-04-08 The draft resolutions of the general meeting of the shareholders of AB "VST"
According to the decision of the Board of AB "VST" a general shareholders meeting is called on April 18th, 2008 and shall take place at the offices of the Company 5th floor, J.Jasinskio 16c, Vilnius, at 14.00 AM.

2008-03-14 The General meeting of the shareholders of VST AB is called on April 18, 2008
The Board of VST AB on March 14, 2008 adopted a decision to call the General shareholders meeting of VST AB and approved the following agenda of the meeting.

2008-02-29 VST, AB interim financial report for twelve months of 2007
VST, AB present non-audited interim financial report for twelve months of 2007 and confirmation of responsible persons.

2008-02-15 VST, AB result for the year 2007
The Company's non-audited net profit for the year 2007 is 67.2 million LTL (19.6 million EUR) according to the International Financial Reporting
Standards, in 2006 audited net profit was - 59.7 million LTL (17.3 million EUR).
The Company's revenue - 1 059 million LTL (306.7 million EUR) in 2007, compared with 928.6 million LTL (268.9 million EUR) in 2006.
In 2007 the Company sold 3 940 million kWh of electric power, compared with 3680 million kWh in 2006.
According to the independent valuators, the Company's property, plant,equipment and other long term tangible assets accounted for as of 1 January 2007 amounts to 2 807 million LTL (812.9 EUR).
In 2007 the Company invested 140 million LTL (40.5 million EUR) into electric power distribution and other property, plant and equipment.

PUBLICLY DECLARED INFORMATION
(all the information is provided in Company's site www.vst.lt)

30 11 2007 Prepared VST, AB interim financial report for nine months of 2007

VST, AB has prepared interim financial report for nine months of 2007 (attached) in accordance with the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission.

30 11 2007 National Control Commission for Prices and Energy announced electricity prices and tariffs of VST and their application procedure

National Control Commission for Prices and Energy during the session held on November 30th made a decision to announce electricity prices and tariffs of VST, AB and their application procedure. This procedure had been confirmed by the board of VST, AB on the October 29th, 2007 by the protocol number 106. Starting from the 1st of January, 2008 end price for the I group consumers (household-consumers) will be the same as during the year 2007. The end price for the II-III group consumers will increase by 3ct/kWh (0.87 Euro cent/kWh) plus VAT.

29 11 2007 Concerning the meeting of the Board of VST, AB on 29th November, 2007

On 29th of November, 2007 the Board of VST, AB decided to reduce the distribution tariffs for household consumers, therefore the electricity prices for residents shall not be raised from 1st of January, 2008.

28 11 2007 Concerning the meeting of the Board of VST, AB on 29th November, 2007

On 29th of November, 2007 the Board of VST, AB shall consider the possibility at the expense of company's profit to reduce the distribution tariffs, in order the electricity prices for residents would not change from 1st of January, 2008.

31 10 2007 The National Control Commission for Prices and Energy ratified the end-user energy price cap for VST, AB for the year 2008

The National Control Commission for Prices and Energy during the session held on October 30th ratified the end-user energy price caps for VST, AB for the year 2008:

• The end-user price cap for electricity consumers connected to the 110 kV or higher power grid is 17,28 ct/kWh or 5,00 Euro cent/kWh (currently - 13,76 ct/kWh or 3,99 Euro cent/kWh);
• The end-user price cap for electricity consumers connected to the 6 kV but not higher than 110 kV power grid is 25,51 ct/kWh or 7,39 Euro cent/kWh (currently - 21,13 ct/kWh or 6,12 Euro cent/kWh);
• The end-user price cap for electricity consumers connected to the 0,4 kV power grid is 35,87 ct/kWh or 10,39 Euro cent/kWh (currently - 30,3ct/kWh or 8,78 Euro cent/kWh);

This information can be found on the Commission's web page http://www.regula.lt.

31 10 2007 2007 Q3 activity result of VST, AB

Preliminary pre-audit 2007 Q3 activity result of VST, AB is LTL 42 mil. (EUR 12.2 mil.) net profit.

26 10 2007 The Board of VST AB elected the Chairman

The Board of VST AB on October 26, 2007 elected Aidas Ignatavičius the Chaiman of the Board.

26 10 2007 The decisions adopted in the General meeting of the shareholders of VST AB on October 26, 2007

The General shareholders meeting of VST AB, held on October 26, 2007, adopted the following decisions:

1. The item of the agenda "The elections of the audit company for auditing company's financial statement for 2007 and setting the terms and conditions of payment for audit services."
1.1. To elect UAB „Ernst & Young Baltic"to audit the financial accounting of 2007 and to pay not more than LTL 140,000 (VAT excluded) for the audit services.

2. The item of the agenda "The election of the Board of the company."
2.1. To elect the new Board of VST AB for the term of 4 (four) years. The new Board consists of:
1) Aidas Ignatavičius;
2) Rytis Borkys;
3) Gytis Kundrotas;
4) Lina Minderienė.
2.2. To decide that the newly elected Board of VST AB will start it's activities after the shareholders meeting on October 26th, 2007, which elected the new Board has ended.

12/10/2007 The draft resolution of the general meeting of the shareholders of VST AB

According to the decision of the Board of VST AB the general shareholders meeting is called on October 26th, 2007, 13.00 and shall take place at the office of the Company 5th floor, J.Jasinskio 16c, Vilnius. The shareholders will be asked to approve the following agenda:

1. The agenda "The elections of the audit company for auditing company's financial statement for 2007 and setting the terms and conditions of payment for audit services."

1.1 To elect UAB „Ernst & Young Baltic“ to audit the financial accounting of 2007 and to pay not more than LTL 140,000 (VAT excluded) for the audit services.

2. The agenda “The Elections of the Board of the company”:
2.1. To elect the new Board of VST AB for the term of 4 (four) years. The new Board consists of:
1) Aidas Ignatavičius;
2) Rytis Borkys;
3) Gytis Kundrotas;
4) Lina Minderienė.
2.2. To decide that the newly elected Board of VST AB will start it‘s activities after the shareholders meeting on October 26th, 2007, which elected the new Board has ended.

12 10 2007 Renewed agenda of the General meeting of the shareholders of VST AB

On October 11, 2007 the Board of VST AB, after taking into consideration the proposal of one of the shareholders (UAB „NDX energija“, which owns 97,10 per cent of the shares of VST AB), adopted the decision to renew the agenda of the the General shareholders meeting of VST AB which is called on October 26, 2007 by adding the second question („Election of the Board of the company“) and approved the following agenda of the meeting:

1.The elections of the audit company for auditing company's financial statement for 2007 and setting the terms and conditions of payment for audit services.

2.The Elections of the Board of the company.

The date and time of the General shareholders meeting - October 26, 2007, 13.00.
The shareholders meeting place: Vilnius, Jasinskio st. 16C (5th floor).
The accounting day of the shareholders meeting - October 19, 2007.
Registration starts - October 26, 2007, 12.25.
Registration ends - October 26, 2007, 12.55.

21 09 2007 Regarding the general meeting of the shareholders of VST AB

The Board of VST AB (identification code: 110870748) on September 21, 2007 adopted a decision to call the General shareholders meeting of VST AB and approved the following agenda of the meeting:

1. The elections of the audit company for auditing company's financial statement for 2007 and setting the terms and conditions of payment for audit services.

The date and time of the General shareholders meeting - October 26, 2007, 13.00.
The shareholders meeting place: Vilnius, Jasinskio st. 16C (5th floor).
The accounting day of the shareholders meeting - October 19, 2007.
Registration starts - October 26, 2007, 12.25.
Registration ends - October 26, 2007, 12.55.

17 09 2007 Correction: VST, AB annual report - prospectus of the year 2006

Corrected VST, AB annual report-prospectus of the year 2006.

31 08 2007 VST, AB interim financial report for six months of 2007

VST, AB interim financial report for six months of 2007 and interim report.

26 07 2007 VST, AB non - audited activity result for the first half of 2007 and Chief Executive Officer change

VST, AB non - audited activity result for the first half of 2007:
- Revenue - 525.8 million LTL (152.3 million EUR) (first half of 2006 - 472.7 million LTL (136.9 million EUR); audited for the year 2006 - 928.6 million LTL (268.9 million EUR)).
- EBITDA - 183.4 million LTL (53.1 million EUR) (first half of 2006 - 170.2 million LTL (49.3 million EUR); audited for the year 2006 - 316.8 million LTL (91.7 million EUR)).

- net profit - 30.3 million LTL (8.8 million EUR) (first half of 2006 - 24.5 million LTL (7.1 million EUR); audited for the year 2006 - 59.7 million LTL (17.3 million EUR)).

VST, AB Chief Executive Officer change.

From the August 6th, 2007 Aidas Ignatavičius, at this moment working as the Director of Power supply and Branch Management division of VST, AB has been appointed the Chief Executive Officer of VST, AB replacing Darius Nedzinskas. From the August 6th, 2007 Darius Nedzinskas will hold position of the Chaiman of the Board and the Chief Executive Officer of „NDX energija", UAB group.

25 05 2007 VST AB financial report fo 1 quarter

VST AB has prepared financial report for 1 Q of 2007 (attached) in accordance with the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission.

27 04 2007 The decisions adopted in the General meeting of the shareholders of AB "VST" on April 27, 2007

The General shareholders meeting of AB "VST", held on on April 27th, 2007, adopted the following decisions:
1. The item of the agenda "The consideration of the 2006 Annual report of AB "VST":
1.1. Accept the 2006 annual report of AB "VST".
2. The item of the agenda "Approval of the 2006 financial statements of AB "VST":
2.1. Approve the 2006 financial statements of AB "VST" audited by the audit company UAB „Ernst & Young Baltic".
3. The item of the agenda "Distribution of 2006 profit (loss) of AB "VST":
3.1. Approve the distribution of 2006 profit (loss) of AB "VST".
3.2. Pay dividends to the shareholders of AB "VST" in the amount of 16,00 LTL (4,63 EUR) per one ordinary registered share of the company.
3.3. Designate, that the right to receive dividends, set in the Clause 3.2 herein, shall have those persons, which on the end of the day of the general shareholders meeting, which decided to pay dividends, i.e. on the end of April 27, 2007 shall be the shareholders of AB "VST". The dividends to such persons should be paid according to the paragraph 60 part 4 of the Lithuanian Republic Law on Companies, i.e. in one month from the adoption day of the decision to pay dividends, payment being made through the company's shareholders' issuer accountants and the company's (issuer's) issuer accountant - AB bankas "Hansabankas".

27 04 2007 Preliminary pre-audit 2007 1Q activity result of VST AB

Preliminary pre-audit 2007 1Q activity result of VST AB is LTL 24.9 mil. (EUR 7.21 mil.) net profit before taxes.

27 04 2007 "VST" AB annual report 2006

"VST" AB annual report 2006.

16 04 2007 The drafts resolutions of the general meeting of the shareholders of AB "VST"

According to the decision of the Board of AB "VST" a general shareholders meeting is called on April 27th, 2007 and shall take place at the offices of the Company 5th floor, J.Jasinskio 16c, Vilnius, at 11.00 AM. The shareholders will be asked to approve the following items:

1. The item of the agenda "The consideration of the 2006 Annual report of AB "VST":
1.1. Accept the 2006 annual report of AB "VST".
2. The item of the agenda "Approval of the 2006 financial statements of AB "VST":
2.1. Approve the 2006 financial statements of AB "VST" audited by the audit company UAB „Ernst & Young Baltic" (attached).
3. The item of the agenda "Distribution of 2006 profit (loss) of AB "VST":
3.1. Approve the distribution of 2006 profit (loss) of AB "VST" (attached).
3.2. Pay dividends to the shareholders of AB "VST" in the amount of 16,00 LTL (4,63 EUR) per one ordinary registered share of the company.
3.3. Designate, that the right to receive dividends, set in the Clause 3.2 herein, shall have those persons, which on the end of the day of the general shareholders meeting, which decided to pay dividends, i.e. on the end of April 27, 2007 shall be the shareholders of AB "VST". The dividends to such persons should be paid according to the paragraph 60 part 4 of the Lithuanian Republic Law on Companies, i.e. in one month from the adoption day

of the decision to pay dividends, payment being made through the company's shareholders' issuer accountants and the company's (issuer's) issuer accountant - AB bankas “Hansabankas”.

Profit (loss) distribution project proposed to approve in a general shareholders meeting:

1. Retained earnings at the beginning of the financial year 33 010 331 LTL (9 560 452,68 EUR);
2. Net annual operating result (profit/loss) 59 677 144 LTL (17 283 695,55 EUR);
3. Profit (loss) of the financial year that is unrecognized in the profit (loss) statement 0 LTL (0 EUR);
4. Transfers from reserves:
4.1. Transfer from revaluation reserve 361 312 045 LTL (104 643 201 EUR);
4.2. Transfer from compulsory reserve 0 LTL (0 EUR);
5. Shareholders' contributions to cover losses (if shareholders decided to cover all or a portion of losses) 0 LTL (0 EUR);
6. Total distributable profit (loss) 453 999 520 LTL (131 487 349,40 EUR);
7. Profit allocation to the compulsory reserve 0 LTL (0 EUR);
8. Profit allocation to the reserve to purchase company‘s own shares 0 LTL (0 EUR);
9. Profit allocation to other reserves 0 LTL (0 EUR);
10. Profit allocation to pay out dividends (16 LTL per 1 share, i.e. 4,63 EUR per 1 share) 59 487 968 LTL (17 228 906,39 EUR);
11. Profit allocation to yearly pay outs to board and council members, employee bonuses and other purposes 0 LTL (0 EUR);
12. Retained earnings carried forward to next financial year 394 511 552 Lt (114 258 443 EUR).

23 03 2007 The General meeting of the shareholders of AB “VST”

The Board of AB “VST” on March 23, 2007 adopted a decision to call the General shareholders meeting of AB “VST” and approved the following agenda of the meeting:

1. The consideration of the 2006 Annual report of AB “VST”.
2. Approval of the 2006 financial statements of AB “VST”.
3. Distribution of 2006 profit (loss) of AB “VST”.

The date and time of the General shareholders meeting - April 27, 2007, 11.00 AM.
The shareholders meeting place: Vilnius, Jasinskio st. 16C (5th floor).
The accounting day of the shareholders meeting -April 20, 2007.
Registration starts - April 27, 2007, 10.25 AM.
Registration ends - April 27, 2007, 10.55 AM.

The Board of AB “VST” suggests the General shareholders meeting to adopt the decision to pay dividends in the amount of 16,00 LTL (4.63 EUR) per one ordinary registered share of the company. The Board of AB “VST” suggests the General shareholders meeting to designate, that the right to receive dividends shall have those persons, which on the end of the day of the general shareholders meeting, which decided to pay dividends, i.e. on the end of April 27, 2007 shall be the shareholders of AB “VST”. The dividends to such persons should be paid according to the paragraph 60 part 4 of the Lithuanian Republic
Law on Companies, i.e. in one month from the adoption day of the decision to pay dividends, payment being made through the company's shareholders' issuer accountants and the company's (issuer's) issuer accountant - AB bankas “Hansabankas”.

28 02 2007 Activity rezult for 2006 of VST AB

AB “VST” in the year 2006 earned 59,68 mln. litas (17,28 mln. EUR) audited net profit, calculated according to International Financial Reporting Standards.

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 Aidas Ignatavičius

19-02-2008

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 **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 **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 NO	 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 **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.

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. 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.

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.

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

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

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	NO	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 **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.

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 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. 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. 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. 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.

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.

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. 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.

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.

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

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

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

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	NO	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.

Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	YES	
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.

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 **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.

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.

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

8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	NO	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: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	NO	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.

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. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the	NO	See 8.1.

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. 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: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		

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

10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	YES YES YES NO YES YES NO 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. 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	

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 **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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VST, AB

Lithuanian Securities Commission
Konstitucijos ave. 23
LT-08105 Vilnius, Lithuania

2008-02-19

CONFIRMATION OF RESPONSIBLE PERSONS

Following the Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we Aidas Ignatavičius, Chief Executive Officer of VST, AB, and Lina Minderienė, Chief Financial Officer of VST, AB, hereby confirm that, to the best of our knowledge, the attached audited VST, AB Financial statements for the year 2007, prepared in accordance with International Financial Reporting Standards, and gives a true and fair view of the assets, liabilities, financial position and profit or loss of VST, AB.

Chief Executive Officer	Aidas Ignatavičius
Chief Financial Officer	Lina Minderienė

Joint Stock Company VST
Financial statements for the year 2007 prepared in accordance with International Financial Reporting Standards as adopted by the European Union presented together with independent auditors' report

CONTENTS

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VAT payer code LT108784411
Register of Legal Persons

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

Report on the Financial Statements

We have audited the accompanying 2007 financial statements of Joint Stock Company VST, a company registered in the Republic of Lithuania (hereinafter the Company), which comprise the balance sheet as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company VST as of 31 December 2007, 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.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Management Annual Report for the year ended 31 December 2007 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

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

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

The audit was completed on 19 February 2008.

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

Income statement

	Notes	2007	2006
Sales	3	1 053 757	924 779
Other operating income	4	5 574	4 935
		1 059 331	929 714
Purchases of electricity	5	(581 436)	(491 125)
Depreciation and amortisation	11, 19	(284 476)	(217 999)
Wages, salaries and social security		(56 034)	(50 659)
Repair and maintenance expenses	6	(23 941)	(21 619)
Spare parts and other inventories	13	(15 452)	(14 968)
Utilities and communications expenses		(5 697)	(5 445)
Other operating expenses	7	(7 039)	(32 632)
		(974 075)	(834 447)
Operating profit		**85 256**	**95 267**
Financial income	8	8 159	5 196
Financial (expenses)	8	(18 559)	(16 862)
Profit before tax		**74 856**	**83 601**
Current year income tax (expenses)	20	(41 023)	(54 383)
Deferred income tax benefit	20	33 411	30 459
Net profit		**67 244**	**59 677**
Basic and diluted earnings per share, in LTL	10	18.09	16.05

The financial statements presented on pages 4 to 30 were approved by the General Director and Director of Financial Department on 19 February 2008.

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

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

Balance sheet

	Notes	As of 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	11	2 734 971	2 079 091
Intangible assets	12	798	656
		2 735 769	2 079 747
Current assets			
Inventories	13	7 753	6 525
Trade and other receivables	14	89 846	83 039
Prepayments, deferred charges and accrued income	15	11 284	12 672
Cash and cash equivalents	16	206 440	102 935
		315 323	205 171
Total assets		**3 051 092**	**2 284 918**
EQUITY			
Share capital	17	111 540	111 540
Revaluation reserve	2	1 345 069	830 011
Legal reserve	2	11 154	11 154
Retained earnings		620 612	453 999
Total equity		**2 088 375**	**1 406 704**
LIABILITIES			
Non-current liabilities			
Borrowings	18	298 929	347 091
Deferred income	19	187 394	136 385
Deferred income tax liability	20	293 214	206 293
		779 537	689 769
Current liabilities			
Borrowings	18	80 389	49 489
Trade and other financial liabilities	21	67 643	89 887
Other payables	21	7 429	4 812
Advances received and accrued charges	22	25 046	28 321
Income tax payable		2 673	15 936
		183 180	188 445
Total liabilities		**962 717**	**878 214**
Total equity and liabilities		**3 051 092**	**2 284 918**

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

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

Cash flow statement

	Notes	2007	2006
Cash flows from operating activities			
Net profit		67 244	59 677
Adjustments for non-cash items:			
- Income tax	20	7 612	23 924
- Depreciation and amortisation	11, 12	285 234	218 365
- Depreciation of property, plant and equipment received at no consideration	19	(758)	(366)
- Recognition of income from the connection of new customers	3	(4 751)	(3 558)
- Accrued income from electricity sales	15	(2 252)	(621)
- Loss on sale of property, plant and equipment	4	373	373
- Write-offs and impairment (reversal of impairment) of property, plant and equipment, revaluation effect	7	(14 439)	3 920
- Impairment (reversal) of impairment of receivables and prepayments	7	(7 967)	558
- Inventories surplus and (reversal) of inventories impairment		(3 010)	(804)
- Accrued wages, salaries and social security expenses and other accruals	22	1 168	3 065
- Net loss from transactions in foreign currencies	8	4	4
- Interest (income)	8	(8 159)	(5 196)
- Interest expenses	8	18 479	16 781
- Other (income)		(16)	-
		338 762	316 122
Changes in working capital:			
- Inventories		1 782	7 980
- Receivables, prepayments, deferred charges and accrued income		4 792	(8 832)
- Deferred income	19	56 518	31 499
- Payables, other financial liabilities, advances received and accrued charges		(23 383)	(3 514)
Cash flow from operations		378 471	343 255
Interest received		7 273	5 060
Interest (paid)		(18 355)	(16 533)
Income tax (paid)	20	(54 270)	(61 295)
Net cash flows from operating activities		**313 119**	**270 487**
Cash flows from investing activities			
(Purchase) of property, plant and equipment	11	(138 520)	(141 113)
(Purchase) of intangible assets	12	(126)	(885)
Proceeds from sale of property, plant and equipment		605	4 502
Loan repayments received		22	39
Net cash flows from investing activities		**(138 019)**	**(137 457)**
Cash flows from financing activities			
Proceeds from loans		423 231	-
Loans (repaid)		(435 301)	(101 237)
Financial lease payments	18	(95)	(41)
Dividends (paid)	9	(59 426)	(128 113)
Net cash flows from financing activities		**(71 591)**	**(229 391)**
Effects of exchange rate changes on cash balance	8	**(4)**	(4)
Net (decrease) increase in cash and cash equivalents		**103 505**	**(96 365)**
Cash and cash equivalents at beginning of year		102 935	199 300
Cash and cash equivalents at end of year	16	**206 440**	**102 935**

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
Director of Financial Department

(signature)

(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 2005		**111 540**	**925 424**	**11 154**	**429 730**	**1 477 848**
Reassessment of deferred income tax	20	-	(2 513)	-	-	(2 513)
Transfer from revaluation reserve to retained earnings		-	(92 900)	-	92 900	-
Total income and expense for the year recognised directly in equity		-	(95 413)	-	92 900	(2 513)
Net profit for the year		-	-	-	59 677	59 677
Total income and expense for the year		**-**	**(95 413)**	**-**	**152 577**	**57 164**
Dividends declared for 2005	9	-	-	-	(128 308)	(128 308)
Balance as at 31 December 2006		**111 540**	**830 011**	**11 154**	**453 999**	**1 406 704**
Revaluation of non-current assets	11	-	673 234	-	-	673 234
Reassessment of deferred income tax	20	-	681	-	-	681
Transfer from revaluation reserve to retained earnings		-	(158 857)	-	158 857	-
Total income and expense for the year recognised directly in equity		-	515 058	-	158 857	673 915
Net profit for the year		-	-	-	67 244	67 244
Total income and expense for the year		**-**	**515 058**	**-**	**226 101**	**741 159**
Dividends declared for 2006	9	-	-	-	(59 488)	(59 488)
Balance as at 31 December 2007		**111 540**	**1 345 069**	**11 154**	**620 612**	**2 088 375**

Aidas Ignatavičius
General Director

(signature)

Lina Minderienė
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 financial statements cover individual Company’s financial statements as of 31 December 2007.

The shares of the Company are traded on the Baltic Secondary List of the Vilnius Stock Exchange.

As of 31 December 2007 and 2006, 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 1 885 in 2007 (1 968 in 2006).

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.

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.

The financial statements are presented in Litas and all values are rounded to the nearest thousand (LTL 000) except when otherwise indicated.

Statement of compliance

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

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Company has adopted the following new and amended IFRS and International Financial Report Interpretation Committee (IFRIC) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

- IFRS 7 Financial Instruments: Disclosures. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. There has been no effect on the financial position or results and comparative information has not been changed.

2 Summary of accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

- IAS 1 Presentation of financial statements. This amendment requires the Company to make new disclosures to enable users of financial statements to evaluate the Company's objectives, policies and procedures for managing capital. These new disclosures are shown in Note 23.

- IFRIC 8 Scope of IFRS 2. This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Company.

- IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that 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. The interpretation had no impact on the financial position or performance of the Company.

- IFRIC 10 Interim Financial Reporting and Impairment. The Company adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must 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. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

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

- IFRS 8 Operating Segments (effective 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.

- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.

- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.

2 Summary of accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognized, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.

- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements in the period of initial application, except for IAS 23 Borrowing costs and IAS 1 Presentation of Financial Statements – Revised.

IAS 23 Borrowing costs

The revised standard requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Company will adopt this as a prospective change. When the Company adopts this standard, borrowing costs related to qualifying assets will be capitalised.

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced.

2 Summary of accounting policies (cont'd)

2.2 Foreign currency translation

Functional currency

The amounts shown in these financial statements are measured and presented in local currency, Litas (LTL). The Litas is the functional 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 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 amortisation (Notes 2.5 and 19), overdeclaration income calculation (Note 22), depreciation (Notes 2.8 and 11) and impairment evaluation (Notes 2.10, 2.19 and 2.20). 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 is 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 is 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 and transfer or risks and rewards of products or rendering of services and customer acceptance, if any.

2 Summary of accounting policies (cont'd)

2.6 Income tax

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

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

The standard income tax rate in Lithuania is 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 per share

Basic earning per share is calculated by dividing the net profit 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 per share, there is no difference between the basic and diluted earnings 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 appraisers or by the Company's management (the management estimated values for assets that will be 100% reconstructed in the nearest future), less subsequent accumulated depreciation and subsequent accumulated impairment losses. 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. All other repair and maintenance costs are recognised in profit or loss as incurred.

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. 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. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation 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.

2 Summary of accounting policies (cont'd)

2.8 Property, plant and equipment (cont'd)

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

- Buildings	10 - 80 years
Including:	
35-110 kV transformer substation buildings	35 years
10 kV distribution point buildings	35 years
10/0,4 kV transformer buildings	50 years
Connection and control system buildings	25 years
- Structures and machinery	5 - 50 years
Including:	
35-110 kV transformer substations (except buildings)	25 - 40 years
10 kV distribution points (except buildings)	35 years
10/0,4 kV power transformers	35 years
35 kV power lines	40 years
0,4-10 kV electricity network	30 - 40 years
10/0,4 kV transformers (except buildings)	30 years
Connection and control systems (except buildings)	10 - 40 years
- Vehicles	4 - 15 years
- Other tangible assets	3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The review of useful lives is performed after revaluation of assets as well.

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 fair value 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.

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 Summary of accounting policies (cont'd)

2.11 Financial lease and operating lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of specific asset or assets or the arrangement conveys a right to use the asset.

The Company as a lessee
Financial lease, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expenses in profit or loss on a straight line bases over the lease term.

The Company as lessor
Lease where the Company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating lease. Initial direct cost incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Operating lease – the Company as lessor
Assets leased under operating lease in the balance sheet of the Company are accounted for depending on their nature. Income from operating lease is recognised as other income in the statement of income within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognised using straight-line method during the lease period by reducing the lease income. Initial direct expenses incurred in order to generate lease income are included in the carrying value of the leased asset.

2.12 Grants

Government 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, depreciation expense account is increased by the amount of grant amortisation.

Government 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.

2.13 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 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.

2.15 Share capital

Ordinary shares are stated at their par value.

2 Summary of accounting policies (cont'd)

2.16 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 the 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 revaluation. The reserve is decreased by the amount of relating deferred income tax upon its recognition. The revaluation reserve included in equity is transferred to retained earnings 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.

2.17 Dividends

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

2.18 Borrowings

Borrowing costs are expensed as incurred.

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

2.19 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.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.20 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.

2 Summary of accounting policies (cont'd)

2.20 Investments and other financial assets (cont'd)

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.

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 change of the allowance is recognised in the income statement.

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.

The Company does not have financial instruments at fair value as of 31 December 2007 and 2006.

2 Summary of accounting policies (cont'd)

2.21 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

	2007	2006
Sales of electricity	1 033 199	906 098
Sales of reactive energy	15 807	15 123
Customers' connection fees (Note 19)	4 751	3 558
	1 053 757	**924 779**

3 947 million kWh of electricity were sold in 2007, i. e. by 7,17% more than in 2006 (3 683 m kWh – in 2006). The increase was caused mainly by the increase in consumption of electricity in the year 2007.

4 Other operating income

	2007	2006
Profit on sales of materials	1 157	1 485
Services related to electricity	587	1 182
Rent and telecommunication income	633	635
Penalties and fines received	686	711
Income from instalation works	1 845	322
Other income	666	600
	5 574	**4 935**

5 Purchases of electricity

Purchases electricity expenses present purchases of electricity from State Company Ignalinos Atominė Elektrinė, AB Lietuvos Energija and other electricity producers. The increase in expenses is in line with increase in sales.

6 Repair and maintenance expenses

Repair and maintenance expenses mainly present maintenance works purchased from services providers.

7 Other operating expenses

	2007	2006
Cash collection expenses	4 969	5 647
Impairment (reversal of impairment) and write-off of property, plant and equipment and (increase) in value that covers decrease in value during first revaluation	(14 438)	3 920
Taxes other than income tax	1 396	4 154
Fuel	4 015	4 017
IT expenses	1 073	1 097
Impairment (reversal of impairment) and write-off of receivables and prepayments	(8 113)	558
Loss on disposal of property, plant and equipment	373	373
(Reversal) of net realisable value adjustment	(2 226)	(273)
Other expenses	19 990	13 139
	7 039	**32 632**

8 Finance (costs) / income, net

	2007	2006
Interest income	8 159	5 196
Total finance income	8 159	5 196
Interest (expenses)	(18 479)	(16 781)
Loan administration (expenses)	(75)	(76)
Penalties and fines (paid)	(1)	(1)
Net foreign exchange (losses)	(4)	(4)
Total finance (expenses)	(18 559)	(16 862)
	(10 400)	**(11 666)**

9 Dividends

	2007*	2006*
Dividends declared	59 488	128 308
Weighted average number of shares (thousands)	3 718	3 718
Approved dividends per share (expressed in LTL per share)	16.00	34.51

* The year when dividends are declared

The shareholders of the Company declared dividens in the amount of LTL 59 488 thousand for the year 2006 (LTL 128 308 thousand for 2005). The major part of the amount was paid out in year 2007. The remaining liability to the shareholders of the Company as of 31 December 2007 amounts to LTL 6 617 thousand (LTL 6 555 thousand as of 31 December 2006) and is accounted for in trade and other financial liabilities in the balance sheet (Note 21).

10 Earnings per share, basic and diluted

	2007	2006
Net profit attributable to shareholders	67 244	59 677
Weighted average number of ordinary shares in issue (thousands) (Note 17)	3 718	3 718
Basic earnings per share (expressed in LTL per share)	18.09	16.05

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

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

11 Property, plant and equipment

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Construc-tion in progress	Total
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)	(7 684)	(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
Year ended 31 December 2007						
Opening net book value	185 074	1 756 147	30 445	18 969	88 456	2 079 091
Additions	302	825	6 112	578	130 703	138 520
Disposals	(626)	(80)	(167)	(108)	(5 095)	(6 076)
Write-offs	(137)	(6 262)	(25)	(115)	-	(6 539)
Revaluation	140 116	669 111	(2 208)	7 604	-	814 623
Changes in impairment charge per year	-	-	-	-	(183)	(183)
Reclassifications between groups	8 589	134 837	1	11 993	(155 420)	-
Depreciation charge	(12 982)	(251 483)	(8 838)	(11 162)	-	(284 465)
Closing net book value	320 336	2 303 095	25 320	27 759	58 461	2 734 971
At 31 December 2007						
Cost or revalued cost	333 318	2 554 578	34 158	38 921	59 117	3 020 092
Accumulated depreciation	(12 982)	(251 483)	(8 838)	(11 162)	-	(284 465)
Accumulated impairment	-	-	-	-	(656)	(656)
Net book value	320 336	2 303 095	25 320	27 759	58 461	2 734 971

Depreciation is accounted for in operating expenses. The Company accounted for reduction in prepayments between 2007 and 2006 in the additions of construction in progress in amount of LTL 1 389 thousand.

Revaluation of property, plant and equipment

The Company's property, plant and equipment (except for construction in progress) was revalued by external independent appraiser, Ober-Haus Nekilnojamasis Turtas UAB, qualification certificate No. 000011 issued on 24 January 2000, in 2007. Valuations were made on the basis of replacement cost, except for other assets (with no business specific features) that were revalued using comparable prices method. The increases and decreases in carrying amounts arising from the revaluation of property, plant and equipment are as follows:

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Total
Increase in carrying amount	190 220	1 025 165	4 716	10 157	1 230 258
Decrease in carrying amount	(50 104)	(356 054)	(6 924)	(2 553)	(415 635)
	140 116	669 111	(2 208)	7 604	814 623

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

11 Property, plant and equipment (cont'd)

Revaluation surplus emerged due to LTL 1 117 771 thousand increase in revaluation reserve and coverage of impairment for previous assets revaluation in the amount of LTL 112 487 thousand. The decrease of LTL 415 635 thousand is comprised of LTL 323 524 thousand decrease of revaluation reserve of previous revaluation and LTL 92 111 thousand decrease in assets' value that was accounted for in the income statement. The revaluation surplus amounting to LTL 673 234 thousand, net of applicable deferred income tax effect is accounted for in the revaluation reserve in equity and the impairment in the income statement.

If property, plant and equipment would not be revaluated, carrying values of property, plant and equipment as of 31 December 2007 and 2006 would be as follow:

	Land and buildings	Structures and machinery	Vehicles	Other property, plant and equipment	Total
As of 31 December 2007	242 687	995 014	29 179	25 380	1 292 260
As of 31 December 2006	281 324	1 053 385	31 559	21 443	1 387 711

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 lives 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 works.

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 2007 and 2006 amounted to LTL 166 thousand and LTL 108 thousand respectively.

Fully depreciated assets still used by the Company

As of 31 December 2007, the acquisition (revalued) cost of fully depreciated property, plant and equipment, but still in active use of the Company was LTL 8 253 thousand (LTL 381 252 thousand as of 31 December 2006).

12 Intangible assets

	Computer software
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 2006	
Cost	7 941
Accumulated amortisation	(7 285)
Net book value	656
Year ended 31 December 2007	
Opening net book amount	656
Additions	126
Reversal of allowance	785
Amortisation charge	(769)
Closing net book value	798
At 31 December 2007	
Cost	8 065
Accumulated amortisation	(7 267)
Net book value	798

Amortisation is accounted for in operating expenses.

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

13 Inventories

		Year ended 31 December	
		2007	2006
Spare parts and supplies (at cost)		11 261	13 028
Electricity meters (at cost)		2 445	1 676
		13 706	14 704
Valuation allowance	(a)	(5 953)	(8 179)
		7 753	**6 525**

(a) The Company reviewed slow moving inventories in 2007 and updated the allowance for inventories, accordingly. The decrease in allowance occurred as some of inventories were written off or used.

The acquisition cost of the Company's inventories accounted for at net realisable value as of 31 December 2007 amounted to LTL 5 953 thousand (LTL 8 179 thousand as of 31 December 2006). Changes in the allowance for inventories for the year 2007 and 2006 have been included into operating expenses.

The amount of write-down of inventories recognised as an expenses is LTL 15 452 thousand for the year 2007 (LTL 14 968 thousand for the year 2006).

14 Trade and other receivables

		Year ended 31 December	
		2007	2006
Trade receivables	(a)	119 390	110 523
Other receivables	(b)	1 615	11 788
Trade and other receivables, gross		121 005	122 311
Impairment allowance for trade receivables		(30 463)	(38 439)
Impairment allowance for other receivables		(696)	(833)
		(31 159)	(39 272)
		89 846	**83 039**

(a) The increase in trade receivables in 2007 is due to the increase in electricity sales.

(b) The Company in 2006 has accounted for a grant receivable for the EU financed project for implementation of infrastructure modernization of the Company in the amount of LTL 10 023 thousand. The financing was received in 2007.

Trade receivables are non-interest bearing and are generally on 30 – 90 days terms.

As of 31 December 2007 trade receivables with the nominal value of LTL 25 085 thousand (as of 31 December 2006 – LTL 35 452 thousand) were impaired and fully provided for.

Movements in the allowance for impairment of receivables were as follows:

Balance as of 31 December 2005	38 704
Charge for the year	1 228
Amounts reversed	(660)
Balance as of 31 December 2006	39 272
Charge for the year	9
Written off	(146)
Amounts reversed	(7 976)
Balance as of 31 December 2007	31 159

Trade and other receivables that are individually impaired amount to LTL 4 976 thousand as of 31 December 2007 (LTL 8 019 thousand as of 31 December 2006).

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

14 Trade and other receivables (cont'd)

Trade and other accounts receivables are written off when the management is completely sure that the amount will not be recovered.

The ageing analysis of trade and other receivables as of 31 December 2007 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**More than 120 days**	**Total**
2006	81 102	1 355	51	147	40	344	83 039
2007	82 536	5 096	493	513	589	619	89 846

Credit quality of financial assets neither past due nor impaired

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

15 Prepayments, deferred charges and accrued income

	Year ended 31 December	
	2007	**2006**
Accrued income from electricity supply	9 661	7 409
Accrued interest income	1 022	136
Prepayments for services	284	201
Other prepayments and deferred charges	357	4 952
	11 324	12 698
Impairment of prepayments	(40)	(26)
	11 284	**12 672**

16 Cash and cash equivalents

	Year ended 31 December	
	2007	**2006**
Cash at bank and on hand	3 422	7 213
Short-term bank deposits	34 519	6 000
Bonds	168 499	89 722
	206 440	**102 935**

As of 31 December 2007 and 2006, cash and cash equivalents include LTL 12 674 thousand allowance for cash in banks under liquidation.

The effective interest rate for the short-term deposit is 4.068% (in 2006 – 3.65%). The term of this deposit is 3 days (in 2006 – up to 18 days).

As of 31 December 2007 the Company had bonds issued by AB Sampo Bankas with the maturity of 62 and 20 days and the effective interest rate of 6.3% and 5.7% (in 2006 – 29 days and effective interest rate of 3.9%).

The fair value of cash, short term deposits and bonds as of 31 December 2007 amounts to LTL 206 440 (LTL 102 935 as of 31 December 2006).

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

17 Share capital

As of 31 December 2007 and 2006, the Company's share capital amounted to LTL 111 540 thousand. As of 31 December 2007 and 2006, 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.

18 Borrowings

	Year ended 31 December	
	2007	**2006**
Current borrowings		
Current portion of non-current bank loans	80 003	48 581
Financial lease liabilities	119	44
Current portion of other long term payables	267	864
	80 389	49 489
Non-current borrowings		
Bank loans	297 696	340 065
Financial lease liabilities	-	112
Other long term payables	1 233	6 914
	298 929	347 091
Borrowings, total	**379 318**	**396 580**

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.

On 19 January 2007 the Company refinanced the syndicated loan and signed a new agreement. The amount of syndicated loan remained unchanged, only the repayment schedule was updated. The final repayment date was not changed.

The Company also accounts for overdraft from Nordea Bank Finland PLC in the current portion of non-current bank loans. The overdraft amounts to LTL 34 528 thousand as of 31 December 2007 (the Company did not have overdraft as of 31 December 2006) and has to be repaid until 31 December 2008. The interest rate of the overdraft depends on EONIA interest rate fluctuation plus 0.45% margin.

Actual interest rates are close to effective interest rates. As of 31 December 2007 the weighted average interest rate on long term borrowings (except for finacial lease) was 5.066% (as of 31 December 2006 – 4.51%) and on financial lease liabilities – 5.48% (as of 31 December 2006 – 3.3%). All financial liabilities are subject to variable interest rates. As of 31 December 2007 and 2006 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	
	2007	**2006**
Within one year	80 270	49 445
Within 2 to 5 years	298 762	343 522
After 5 years	167	3 457
	379 199	**396 424**

Financial lease liabilities – minimum lease payments:	Year ended 31 December	
	2007	**2006**
Within one year	121	49
Within 2 to 5 years	-	117
	121	166
Future interest expenses of financial lease	(2)	(10)
Current value of financial lease liabilities	**119**	**156**

Other long term payables represent payable to AB Lietuvos Energija for the purchase of property, plant and equipment.

According to the agreements, the Company has to repay the amount until the year 2015.

No assets are pledged as a collateral for the financial liabilities.

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

19 Deferred income

Deferred income relates to contributions received from new customers for the assets installed; financing received from the EU structural funds and property, plant and equipment received by the Company for no consideration.

	Year ended 31 December	
	2007	2006
New customers connection income	137 405	100 899
Advances for the connection of new customers	24 746	15 380
Financing from EU funds	16 630	11 127
Property, plant and equipment received at no consideration (less accumulated amortisation)	8 613	8 979
	187 394	**136 385**

Information about the connection income is presented below:

	Year ended 31 December	
	2007	2006
Opening balance	100 899	67 592
Property, plant and equipment related to new customers connection constructed per year	41 257	36 865
Recognised as income in the income statement	(4 751)	(3 558)
Closing balance	**137 405**	**100 899**

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 received LTL 15 992 thousand during the year 2007.

Amortisation of deferred income related to property, plant and equipment received at no consideration in the amount of LTL 758 thousand in 2007 (LTL 366 thousand in 2006) decreased depreciation expenses of property, plant and equipment in the income statement.

20 Deferred tax liability, net

The change in the deferred income tax accounts is as follows:

	Year ended 31 December	
	2007	2006
Components of income tax expenses (benefit):		
Current year income tax expenses	48 068	54 383
Adjustments of income tax for the previous years	(7 045)	-
Deferred income tax (benefit)	(33 411)	(30 459)
Income tax expenses (income) charged to the income statement	**7 612**	**23 924**

	Year ended 31 December	
	2007	2006
Components of deferred income tax asset:		
New customers connection income	9 528	15 229
Accrued expenses	162	1 746
Impairment of assets (inventories and trade accounts receivable)	5 456	7 133
Deferred income tax asset before valuation allowance	15 146	24 108
Less: valuation allowance	(558)	(4 285)
Deferred income tax asset, net	**14 588**	**19 823**
Components of deferred income tax liability:		
Property, plant and equipment revaluation and changes in depreciation periods	(292 926)	(208 047)
Sales cut-off	-	(1 334)
Investment incentive	(14 876)	(16 735)
Deferred income tax liability	**(307 802)**	**(226 116)**
Deferred income tax, net	**(293 214)**	**(206 293)**

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

20 Deferred tax liability, net (cont'd)

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 2007 valuation allowance was made for the part of the deferred tax asset components – trade receivable 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.

While assesing deferred income tax asset and liability components for the year ended 31 December 2006 the Company has used the income tax rate of 18% for those items, which will be realised in 2007, 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 2007 was assessed using 15% for the items to be realised in 2008 and later. The amount of deferred tax liability realised in 2007 was lower than evaluated at year end 2006, therefore the deferred tax liability was reassessed as of 31 December 2007, giving the decrease of liability in the amount of LTL 681 thousand accounted for in the equity.

Deferred income tax related to items charged or credited directly to equity

	Year ended 31 December	
	2007	**2006**
Change in assessment of deferred tax liability	681	(2 513)
Deferred tax on assets revaluation	(121 013)	-
	(120 332)	**(2 513)**

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 18% for 2007 and 19% for 2006 to pretax income from continuing operations as follows:

	Year ended 31 December	
	2007	**2006**
Income tax calculated at 18% (2006 – 19%)	13 474	15 884
Permanent differences	6 856	1 242
Prior year income tax corrections	(7 045)	-
Changes in valuation allowance	(3 727)	4 285
Effects of changes in income tax rate	(1 946)	2 513
Income tax (benefit) expenses charged to the income statement	**7 612**	**23 924**

21 Trade, other financial liabilities and other payables

		Year ended 31 December	
		2007	**2006**
Trade payables		60 996	83 301
Dividends payable		6 617	6 555
Other		30	31
Trade and other financial liabilities		67 643	89 887
Wages, salaries and social security payable		1 266	1 184
Taxes other than income tax	(a)	6 163	3 628
Other payables		7 429	4 812
		75 072	**94 699**

(a) The increase in taxes payable is due to the increase in VAT payable by the end of 2007.

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 15-30 day terms. The same terms apply for sales to related parties.
- Other payables are non-interest bearing and have an average term of one month.

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

22 Advances and accrued charges

		Year ended 31 December	
		2007	**2006**
Accrued charges	(a)	22 940	22 114
Deferred income – advances received for the electricity	(b)	875	5 569
Other advances		1 231	638
		25 046	**28 321**

(a) An accrued charges caption mainly contains accrued bonuses to employees and related social security taxes that amounted to LTL 2 152 thousand and LTL 4 668 thousand as of 31 December 2007 and 2006 respectively. Moreover accrued payment to VĮ "Ignalinos atominė elektrinė" in the amount of LTL 12 232 thousand is accounted for in 2007 (LTL 14 679 thousand in 2006) for the electricity purchased in the respective year.

(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 as there was no increase in prices in the beginning of the year 2008, the overdeclaration accrual was not booked as of 31 December 2007.

23 Financial risk management

Credit risk

As the Company is working with big number of customers, it does not face a significant credit concentration 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 has special credit department that is responsible for the monitoring of collection of receivables.

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.

Maximum exposure to credit risk amounts to LTL 296 286 thousand and LTL 185 974 thousand as of 31 December 2007 and 2006, 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 2007 and 2006.

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

	Increase/ decrease in percentage points	Effect on profit before tax
2007		
LTL	+ 0.5	(7)
LTL	-2.0	30
EUR	+ 0.5	(1 889)
EUR	-1,0	3 778
2006		
LTL	+ 2.0	(156)
LTL	- 0.5	39
EUR	+ 0.85	(3 305)
EUR	- 0.5	1 944

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

23 Financial risk management (cont'd)

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.

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 (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2007 were 1.72 ir 1.68, respectively (1.09 and 1.05 as of 31 December 2006, respectively).

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and overdrafts. The Company's activities generate sufficient amount of cash, therefore the main managements' responsibility is to monitor that the liquidity ratio of the Company is not lower than 1. The Company exceeds managements' expectations in the liquidity area in years 2007 and 2006.

The table below summarises the maturity profile of the Company’s financial liabilities as of 31 December 2007 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	5 001	62 823	377 676	3 845	449 345
Trade and other financial liabilities	-	67 643	-	-	-	67 643
Balance as of 31 December 2006	-	72 644	62 823	377 676	3 845	516 988
Interest bearing loans and borrowings	-	16 440	82 310	323 010	182	421 942
Trade and other financial liabilities	-	89 887	-	-	-	89 887
Balance as of 31 December 2007	-	106 327	82 310	323 010	182	511 829

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 and discounted cash flow models as appropriate.

The carrying amount of the financial assets and financial liabilities of the Company as of 31 December 2007 and 2006 approximates their fair value.

The fair value of loans, other financial liabilities and other financial assets have been calculated using market interest rates.

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 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.

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

23 Financial risk management (cont'd)

Capital management

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements. Capital includes equity attributable to equity holders.

The Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 31 December 2006.

The Company is obliged to keep its equity up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania.

Moreover the Company has externally imposed capital requirements from the banks. They require that equity/assets ratio is not less than 30%. The management monitors that the Company is in line with the requirement. No other capital management tools are used.

24 Commitments

Capital commitments

As at 31 December 2007, capital expenditure contracted for at the balance sheet date but not recognised in the financial statements amounts to LTL 18 203 thousand (LTL 15 625 thousand as of 31 December 2006).

25 Cash generated from operations

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

In 2007

Disposed non-current assets to AB Lietuvos Energija amounted to LTL 5 098 for repayment of the payable liability.

In 2006

EU subsidy receivable in the amount of LTL 10 023 thousand (Note 19).

26 Related party transactions

Transactions with Company's management

In 2007 the total remuneration of the Company's management (5 managers) amounted to LTL 2 337 thousand (in 2006 – LTL 1 951 thousand to 6 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 controlled by shareholders of UAB NDX Energija.

Transactions with other related parties are presented below:

(i) Sales of services (excl. VAT):

	2007	2006
Maxima LT, UAB (former UAB VP Market)	13 789	14 445
Akropolis, UAB	9 319	8 388
UAB Eurovaistinė (former UAB Eurofarmacijos vaistines)	130	138
UAB NDX Energija	142	-
UAB Tikras Kelias	162	-
	23 542	**22 971**

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

26 Related party transactions (cont'd)

(ii) Purchase of goods and services (excl. VAT)

	2007	2006
UAB Eurocom – communications services	-	401
UAB Ermitažas – tools purchase	-	134
UADBB CITO draudimas – insurance services	1	131
UAB NDX energija – consultation services	137	65
Maxima LT, UAB (former UAB VP Market) – gift vouchers and food products	34	11
	172	**210**

(iii) Payables and advances received

	Year ended 31 December	
	2007	**2006**
Akropolis, UAB	-	449
UAB NDX energija	12	4
UAB Eurocom	-	1
Maxima LT, UAB (former UAB VP Market)	478	-
	490	**454**

(iv) Receivables

	Year ended 31 December	
	2007	**2006**
Maxima LT, UAB (former UAB VP Market)	1 464	1 151
Akropolis, UAB	1 008	419
UAB Eurovaistinė (former UAB Eurofarmacijos vaistines)	19	14
UAB NDX Energija	12	-
UAB Tikras Kelias	23	-
	2 526	**1 584**

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 2007 and 2006, the Company has not made any provision for doubtful debts relating to amounts owned by related parties as all the assets are not overdue. 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.