Joint Stock Company „VST”
Financial statements for the year 2006 prepared in accordance with International Financial Reporting Standards presented together with independent auditors' report

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

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

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

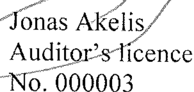
Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with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

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

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

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

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514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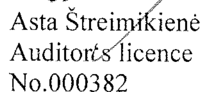
Auditor's licence
No. 000003


Asta Štreimikienė
Auditor's licence
No.000382

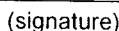
The audit was completed on 28 February 2007.

Income statement

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

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

Darius Nedzinskas
General Director



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Antanas Poška
Director of Financial Department

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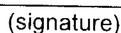
Balance sheet

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

Darius Nedzinskas
General Director



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Antanas Poška
Director of Financial Department

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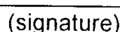
The notes on pages 8 to 26 are an integral part of these financial statements

Cash flow statement

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

Darius Nedzinskas
General Director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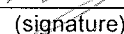
Antanas Poška
Director of Financial Department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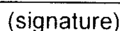
The notes on pages 8 to 26 are an integral part of these financial statements

Statement of changes in equity

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

Darius Nedzinskas
General Director



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Antanas Poška
Director of Financial Department

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

Notes to the financial statements

1 General information

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

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

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

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

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

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

2 Summary of accounting policies

2.1 Basis of preparation

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

Statement of compliance

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

Adoption of new and/or changed IFRSs and IFRIC interpretations

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

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

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

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

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

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

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

2 Summary of accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements o each group entity.

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

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

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

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

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

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

Restatement of prior year figures and correction of error

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

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

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

2 Summary of accounting policies (cont'd)

2.2 Foreign currency translation

Measurement currency

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

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

Transactions and balances

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

2.3 Segment reporting

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

2.4 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to the estimation of accrued revenue depreciation, overdeclaration income calculation, depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.5 Revenue recognition

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

Electricity sales revenue

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

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

Customers' connection fees

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

Other revenue

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

2 Summary of accounting policies (cont'd)

2.6 Income tax

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

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

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

2.7 Basic and diluted earnings (loss) per share

Basic earning (loss) per share is calculated by dividing the net profit (loss) attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shareholders changes without causing a change in the economical resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented. Since there are no instruments reducing earnings (loss) per share, there is no difference between the basic and diluted earnings (loss) per share.

2.8 Property, plant and equipment

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

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

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

Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited directly to equity under the heading of revaluation reserve and decreases are recognised in the income statement. Increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Decreases arising on subsequent revaluations that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. Revaluation increases in property plant and equipment value that offset previous decreases are taken to income statement. Each year the difference between depreciatio based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred tax.

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

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

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

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

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

2 Summary of accounting policies (cont'd)

2.8 Property, plant and equipment (cont'd)

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

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

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

2.9 Intangible assets

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

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

2.10 Impairment of non-current assets

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

2.11 Lease

The Company as the lessee

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

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

The Company as the lessor

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

2.12 Grants

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

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

2 Summary of accounting policies (cont'd)

2.13 Inventories

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

2.14 Receivables

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

2.15 Cash and cash equivalents

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

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

2.16 Share capital

Ordinary shares are stated at their par value.

2.17 Reserves

Legal reserve

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

Revaluation reserve

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

2.18 Dividends

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

2.19 Borrowings

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

2 Summary of accounting policies (cont'd)

2.20 Deferred income tax

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

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

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

2.21 Investments and other financial assets

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

Financial assets or financial liabilities at fair value through profit or loss

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

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

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

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

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

2 Summary of accounting policies (cont'd)

2.22 Offsetting

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

2.23 Employee benefits

Social security contributions

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

Termination benefits

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

2.24 Contingencies

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

A contingent asset is not recognised in the financial statements.

2.25 Subsequent events

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

3 Sales

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

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

4 Other operating income

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

5 Other operating expenses

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

6 Finance (costs) / income, net

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

7 Dividends

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

* The year when dividends are approved

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

8 Earnings per share, basic and diluted

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

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

9 Property, plant and equipment

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

9 Property, plant and equipment (cont'd)

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

Depreciation is accounted for in operating expenses.

Revaluation of property, plant and equipment

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

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

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

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

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

Changes of depreciation rates of property, plant and equipment

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

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

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

Property, plant and equipment acquired under financial lease

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

Fully depreciated assets still used by the Company

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

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

10 Intangible assets

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

Amortisation is accounted for in operating expenses.

11 Inventories

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

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

12 Trade and other receivables

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

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

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

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

13 Prepayments, deferred charges and accrued income

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

14 Cash and cash equivalents

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

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

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

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

15 Share capital

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

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

16 Borrowings

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

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

16 Borrowings (cont'd)

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

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

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

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

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

17 Deferred income

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

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

Information about the connection income is presented below:

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

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

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

18 Deferred tax liability, net

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

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

Valuation allowance was made for part of the deferred tax asset that, in the opinion of the management, is not likely to be realised in the foreseeable future. In 2006 valuation allowance was made for the part of the deferred tax asset components – trade and inventory impairment, which according to the management will not be tax deductable in the future. Deferred income tax asset and deferred income tax liability are set off in the balance sheet of the Company, as they both are related to the same tax authority and are utilised simultaneously.

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

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

18 Deferred tax liability, net (cont'd)

The reported amount of income tax expenses attributable to continuing operations for the year can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate of 19% for 2006 and 15% for 2005 to pretax income from continuing operations as follows:

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

19 Trade and other payables

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

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

20 Advances and accrued charges

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

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

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

21 Financial risk management

Credit risk

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

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

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

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

21 Financial risk management (cont'd)

Liquidity risk

The Company’s policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company’s liquidity and quick ratios as of 31 December 2006 were 1.09 and 1.05 respectively (1.14 and 1.08 as of 31 December 2005 respectively).

Interest rate risk

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

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

Foreign exchange risk

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

Fair value of financial instruments

The Company’s principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

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

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

(a) The carrying amount of current trade and other accounts receivable, current trade and other accounts payable and short-term borrowings approximates fair value due to their relatively short maturity.

(b)The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

22 Commitments

Operating lease commitments – the Company as a lessee

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

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

Capital commitments

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

23 Cash generated from operations

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

In 2006

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

In 2005

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

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

24 Related party transactions

Transactions with Company's management

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

Transactions with other related parties

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

Transactions with other related parties are presented below:

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

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

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

24 Related party transactions (cont'd)

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

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

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