

**“VST” AB  
ANNUAL REPORT  
2006**

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

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


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


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

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

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

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

  
Jonas Akelis  
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Asta Štrejmikienė  
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The audit was completed on 28 February 2007.

## **ACTIVITY REVIEW**

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

### Baltic Market Award

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

### Support Projects

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

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

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

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

The Company supports Skuodas Art School. Currently, a special publication featuring the history of the school is being prepared to commemorate its 40<sup>th</sup> anniversary in September.

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

### Environmental Protection

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

### Customer Service Quality

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

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

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

### Investment

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

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

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

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

### Cooperation

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

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

### Adjustment of Equity Capital Structure

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

## ACTIVITY RESULTS

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

### Revenues

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

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

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

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

### Expenditures

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

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

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

### Non-current assets

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

### Investments

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

## Current assets

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

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

## Borrowings

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

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

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

<b>Lender</b>	<b>Currency</b>	<b>Value in balance sheet (2005 12 31) LTL million</b>	<b>Payback, LTL million</b>	<b>Value in balance sheet (2006 12 31) LTL million</b>
AB bank “Hansabankas”	EUR	17.3	17.3	0
Nordea Bank Finland Plc Lithuania	EUR	34.5	34.5	0
Syndicated loan	EUR	437.2	48.6	388.6
<b>Total</b>		<b>489</b>	<b>100.4</b>	<b>388.6</b>

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

## KEY RISK FACTORS

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

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

## INFORMATION CONCERNING ENVIRONMENT AND PERSONNEL

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

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

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

#### **PURCHASE AND TRANSFER OF OWN SHARES**

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

#### **SUBSIDIARY COMPANIES, PURCHASE OR SALES OF SHARES**

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

#### **INFORMATION ON THE BRANCHES OF THE COMPANY**

In 2006 the Company had no branch offices or representations.

#### **PLANS AND FORECASTS OF THE COMPANY OPERATION**

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

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

#### **COMPLIANCE WITH THE GOVERNANCE CODE**

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

Chief Executive Officer

*28 February* 2007



Darius Nedzinskas

## 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
<b>Principle I: Basic Provisions</b>  <b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
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	
<b>Principle II: The corporate governance framework</b>  <b>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.</b>		



<p>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.</p>	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.
<p>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.</p>	YES NO	Supervisory body is not set up in the Company. See 2.1.
<p>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.</p>	NO	Supervisory body is not set up in the Company. See 2.1.
<p>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.<sup>1</sup></p>	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.
<p>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.<sup>2</sup></p>	YES	Provided that “small group of individuals” is taken as a group of not more than 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.

<sup>1</sup> 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.

<sup>2</sup> Definitions ‘*executive director*’ and ‘*non-executive director*’ are used in cases when a company has only one collegial body.

<p>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.</p>	<p>Not applicable</p>	<p>Supervisory body is not set up in the Company. See 2.1. Non-executive directors are not elected in the Company.</p>
<p>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 depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>NO</p>	<p>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.</p>
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b></p> <p><b>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.<sup>3</sup></b></p>		
<p>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.</p>	<p>YES</p>	<p>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.</p>

<sup>3</sup> 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.

<p>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.</p>	<p>YES</p>	
<p>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.</p>	<p>and YES, and No</p>	<p>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.</p>
<p>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.</p>	<p>NO</p>	<p>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.</p>
<p>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.</p>	<p>YES</p>	<p>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.</p>

<p>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<sup>4</sup> number of independent<sup>5</sup> members.</p>	<p>NO</p>	<p>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.</p>
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<sup>4</sup> 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.

<sup>5</sup> 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.

<p>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:</p> <ol style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>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);</li> <li>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);</li> <li>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</li> </ol>	NO	See 3.6.
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<p>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;</p> <p>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;</p> <p>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;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>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.</p> <p>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.</p>		
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3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	NO	See 3.6.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	NO	See 3.6.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. <sup>6</sup> The general shareholders' meeting should approve the amount of such remuneration.	NO	See 3.6.
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p><b>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<sup>7</sup> of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
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. <sup>8</sup>	YES	

<sup>6</sup> 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.

<sup>7</sup> See Footnote 3.

<sup>8</sup> 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.

<p>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).</p>	<p>YES  NO</p>	<p>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.</p>
<p>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<sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>YES</p>	<p>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<sup>10</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>
<p>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.</p>	<p>YES</p>	<p>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.</p>

<sup>9</sup> 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.

<sup>10</sup> 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.



<p>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.</p>	<p>YES</p>	<p>Provided that independent members of the collegial body are not elected.</p>
<p>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<sup>11</sup>. 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.</p>	<p>YES</p>	<p>Provided that committees of the collegial body are not formed.</p>

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<sup>11</sup> 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.

<p>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.</p>	NO	<p>Independent members of the collegial body are not elected, see 3.6.</p> <p>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.</p>
<p>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.</p>	NO	Comities are not formed, see 4.7.
<p>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</p>	NO	Comities are not formed, see 4.7.

<p>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.</p>		
<p>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.</p>	NO	Comities are not formed, see 4.7.
<p>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.</p>	NO	Comities are not formed, see 4.7.

<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>• Properly consider issues related to succession planning;</li> <li>• Review the policy of the management bodies for selection and appointment of senior management.</li> </ul> <p>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.</p>	NO	Comities are not formed, see 4.7.
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the</li> </ul>	NO	Comities are not formed, see 4.7.

<p>management bodies;</p> <ul style="list-style-type: none"> <li>• 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);</li> <li>• 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.</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>• 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.</li> </ul> <p>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.</p>		
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> <li>• 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);</li> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</li> </ul> <p>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.</p>	<p>NO</p>	<p>Comities are not formed, see 4.7.</p>
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<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>		
<p>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.</p>	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.**

<p>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.</p>	<p>YES</p>	
<p>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<sup>12</sup>.</p>	<p>YES</p>	<p>In order to guarantee an uninterrupted resolution of the essential corporate governance issues, the Board's meetings are held whenever it is necessary.</p>
<p>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.</p>	<p>YES</p>	

<sup>12</sup> 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.



<p>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.</p>	<p>Not applicable</p>	<p>Supervisory body is not set up in the Company, see 2.1.</p>
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b></p> <p><b>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.</b></p>		
<p>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.</p>	<p>YES</p>	
<p>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.</p>	<p>YES</p>	
<p>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.<sup>13</sup> 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.</p>	<p>NO</p>	<p>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.</p>

<sup>13</sup> 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.

<p>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.</p>	<p>YES</p>	
<p>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<sup>14</sup>. 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.</p>	<p>YES</p>	
<p>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.</p>	<p>YES</p>	
<p>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.</p>	<p>NO</p>	<p>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.</p>

<sup>14</sup> 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: <ul style="list-style-type: none"> <li>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>• Sufficient information on the linkage between the remuneration and performance;</li> <li>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>• A description of the main characteristics of supplementary pension or early retirement schemes for directors.</li> </ul>	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.

<p>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.</p>	NO	See 8.1.
<p>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.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>• 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;</li> <li>• 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;</li> <li>• All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ul> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>• 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.</li> </ul> <p>8.7.4. The statement should also state amounts that the</p>	NO	See 8.1.

<p>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.</p>		
<p>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.</p>	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.
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ul style="list-style-type: none"> <li>• Grant of share-based schemes, including share options, to directors;</li> <li>• Determination of maximum number of shares and main conditions of share granting;</li> <li>• The term within which options can be exercised;</li> <li>• The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>• 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.</li> </ul> <p>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.</p>		
<p>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.</p>		

<p>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.</p>		
<p>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.</p>		

**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.**

<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>YES</p>	<p>Stakeholders can participate in corporate governance in the manner prescribed by law of the Republic of Lithuania.</p>
<p>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.</p>	<p>YES</p>	
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>YES</p>	

**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.**

<p>10.1. The company should disclose information on:</p> <ul style="list-style-type: none"> <li>• The financial and operating results of the company;</li> <li>• Company objectives;</li> <li>• Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>• Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>• Material foreseeable risk factors;</li> <li>• Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>• Material issues regarding employees and other stakeholders;</li> <li>• Governance structures and strategy.</li> </ul> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>YES YES YES</p> <p>NO</p> <p>YES YES</p> <p>NO</p> <p>YES</p> <p>NO</p> <p>NO</p> <p>NO</p> <p>NO</p> <p>NO</p>	<p>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.</p> <p>The Company discloses only information related to the Company. Information about whole group to which the Company belongs is disclosed by parent company.</p> <p>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.</p> <p>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.</p>
<p>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.</p>	<p>YES</p>	



<p>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.</p>	<p>YES</p>	
<p>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.</p>	<p>YES</p>	
<p><b>Principle XI: The selection of the company's auditor</b></p> <p><b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b></p>		
<p>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.</p>	<p>YES</p>	
<p>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.</p>	<p>YES</p>	
<p>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.</p>	<p>YES</p>	

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