LIETUVOS ENERGIJA AB

Independent auditor's report, consolidated annual report and financial statements for the year ended 31 December 2006

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Consolidated annual report and financial statements signed on 16 March 2007

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Lietuvos Energija AB:

Report on the Financial Statements

We have audited the accompanying financial statements (page 17 to 55) of Lietuvos Energija AB (thereafter – the Company) and consolidated financial statements of the Company and subsidiaries (thereafter – the Group), which comprise the balance sheet and the consolidated balance sheet as of 31 December 2006, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying consolidated annual report for the year ended 31 December 2006 (page 4 to 16) and have not noted any material inconsistencies between the historical financial information included in it and the financial statements for the year ended 31 December 2006.

Deloitte Lietuva UAB
General Director Juozas Kabašinskas

Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

Vilnius, Lithuania
16 March 2007

CONSOLIDATED ANNUAL REPORT OF LIETUVOS ENERGIJA AB AND ITS SUBSIDIARIES FOR THE YEAR 2006

The consolidated annual report of the joint stock company Lietuvos Energija AB (thereafter – the Company) and its subsidiaries (thereafter - the Group) was prepared by the Executive Board of the Company and approved by the Board (thereafter - the Company's management) in accordance with the Law on Company's Financial Statements of the Republic of Lithuania, Chapter 4[(1)] Article 24[(1)] and with the Law on Company's Consolidated Financial Statements, Chapter 2[(1)] Article 9[(1)].

In this consolidated annual report the Company's management has presented to the Company's shareholders, creditors and other interested parties an overview of the operations of the Company and its subsidiaries for the financial year 2006, major events during financial year 2006, plans and projections of the Company's operations as well as all other information, which, as provided by the effective laws, is required to be disclosed in the consolidated annual report.

As of 31 December 2006 the Company had direct control over its two subsidiaries: Energetikos Pajėgos UAB and Kauno Energetikos Remontas UAB. The Company owned 100% of their shares. Indirectly, through Kauno Energetikos Remontas UAB, the Company had the majority of votes in Gotlitas UAB, Rygas Energetikas Remonts SIA, and Kaliningradskij Energoremont OOO. Lietuvos Energija AB consolidated financial statements for the year 2006 include accounts of the following subsidiaries: Kauno Energetikos Remontas UAB, Gotlitas UAB, Rigas Energetikas Remonts SIA, Kaliningradskij Energoremont OOO and Energetikos Pajėgos UAB.

Besides of the above mentioned subsidiaries, the Company participated in the management of the following associates: Nordic Energy Link AS (25% of shares); Baltijas Energosistemu Dispečeru Centrs BO SIA (thereafter – DC Baltija) (33.33% of shares); Geoterma UAB (23.44% of shares). DC Baltija held the status of an entity under liquidation.

The Company's consolidated annual report is public. It is available to all interested parties at the Company's headquarters: Žvejų str. 14, Vilnius.

Overview of the Group's status, operations and development

Legal acts, which were passed in the country during several recent years, opened the electricity market. The goal of the new legal acts was also to ensure reliable operation of the power system. Fundamentally, the goal was achieved - no major accidents occurred in the power system of the country. Since 2005, the power system of the country was operating with only one reactor of Ignalina Nuclear Power Plant, and in the second half of 2006, till the very end of the year, due to prolonged repair works of this power plant the system was operating with only one turbine of the reactor, therefore even bigger attention to the improvement of reliability and efficiency of power supply was required.

The financial performance indicators of the Group have not decreased during the financial year, and the companies' operations were profitable.

Taking into account a stable financial position of the Company, an international rating agency Moody's adjusted a corporate long-term credit rating from A3 to A2 for borrowings in foreign currencies and established a stable rating outlook. Another international rating agency Standard & Poor's improved a corporate long-term credit rating from BBB+ to A- and established a stable rating outlook. A corporate short-term credit rating was approved the same as in 2005, i.e. A-2.

The core activity of Lietuvos Energija AB is to perform the function of the Transmission System Operator (the „TSO") in the country; For this activity an electricity transmission license was granted to Lietuvos Energija AB with an unlimited period of validity.

With regard to the requirements of reliability of supply, quality, efficiency, consumption, management and environmental protection set forth in the National Energy Strategy, in improving conditions for access to the grid, the TSO plans the long-term development of the power system, conciliates it with the institution authorized by the government and with the distribution network operators. The long-term planning of the power system development is based on scientific research. Lietuvos Energija AB, as a license holder, has an exclusive right to construct and to develop the transmission network. The TSO is responsible for stability and reliability of the power system's operation, the function of national balancing and provision of system services in the territory of the Republic of Lithuania, for operation, maintenance, control and development of interconnection lines with the power systems of neighboring countries.

One the most important objectives of Lietuvos Energija AB – integration of the Lithuanian power system with the electricity market of Western Europe and development of regional cooperation. In the nearest future it is projected to develop the electricity transmission grid by interconnecting it with the Polish power system. By using joint potential of the power systems of the Baltic States, efforts are made to create a common electricity market of the Baltic States for successful integration of the Baltic States with the electricity markets in Western Europe and Nordic Countries.

It is projected that the Company will actively participate in the projects of national importance - in the construction of interconnection lines with Poland and Sweden as well as in the construction of a new nuclear power plant in Lithuania.

Besides of its functions as the Transmission System Operator, the Company is involved in the activities of the market operator, in electricity production in two power plants - Kaunas HPP and Kruonis PSP, electricity export/import; the Company continuously strives to optimize the structure of export and to derive higher benefits on lower cost basis.

In 2006 several important projects to the development of the Company's information technologies and telecommunications aimed to implement the main objective of the Company – reliable and efficient electricity transmission and stability of the power system in Lithuania – were started or continued. The application system for generation of reports on the Transmission System Operator's electricity flows was developed, which will provide the market players with the data on actual electricity flows. This system was developed on the basis of the currently used hard copy reports; it will facilitate the exchange of information with all market players. The upgrade of the dispatch control system XA/21 was started. After the upgrade of the XA/21 system's hardware and software and after the completion of dispatch control centers in Vilnius and Kaunas which will serve as a reciprocal back-up, safer and more reliable functioning and control of the system will be achieved.

In Lietuvos Energija AB attention is focused on the implementation of the IT security control projects. At the end of the year an operating complex of data centers and security system implemented in the complex were awarded a prize for innovations in the product category in the National Contest (the Contest was arranged by the Innovations Centre of Lithuania and the Confederation of Industrialists of Lithuania). The data centers keep real time systems, the Company's and external customers' IT systems requiring the highest reliability standards.

The main activities of the second biggest company of the Group - Kauno Energetikos Remontas UAB – diagnostics of energy equipment, installation, repairs, refurbishment, production of spare parts and various metal structures. The main activities are carried out in four divisions of this company - Boiler Manufacturing, Turbine Manufacturing, Mechanical and Electric Equipment, Laboratory, Metal and Welding. Kauno Energetikos Remontas UAB has direct control over three subsidiaries: Rigas Energetikas Remonts SIA in Latvia (no operations were carried out in 2006) and Gotlitas UAB in Kaunas, Lithuania, where it has control over 100% of the shares of these subsidiaries, Kaliningradskij Energoremont OOO in Russia – where it has control over 99% of the shares, and 1 percent of the shares is owned by a private person. The effect of the results of this company on the results of operations of the Group has been growing as the result of the increasing scope of works and services rendered to other companies.

The main activities of Energetikos Pajėgos UAB – technical scientific research, architectural and engineering works. The company designs construction, rehabilitation, refurbishment projects, provides technical engineering consultations and designs energy development schemes for special planning of territories. More than 85% of these services are rendered to the companies of the Group.

Investment policy

In 2006 the Company's investments in property, plant and equipment (thereafter – PPE) and intangible assets amounted to MLTL 151. The Company has mainly used its own funds for financing the investments. Own funds consisted of depreciation and amortization funds as well as the allocations of earnings to the investments under the decisions of the shareholders.

At 7 July 2005 Lietuvos Energija AB signed the agreement with ALSTOM Power Sweden AB on the rehabilitation of Kaunas Hydro Power Plant. The contract price is approx. MLTL 125, the scheduled date of completion of the power plant's rehabilitation - 2008. Under the Order No 4-238 of the Minister of Economy of the Republic of Lithuania dated 20 June 2005, the grant, amounting to MLTL 30, was allocated to the project from the EU structural funds.

The investment trends in 2006 remained the same as in the previous years: rehabilitation and development of the transmission grid (invested amount MLTL 91.2), implementation of technologies (reactive power equipment, commercial metering, upgrade and development of dispatch control system – total invested amount MLTL 15.3), upgrade of the IT systems and telecommunications (MLTL 3.4), rehabilitation and modernization of power plants (MLTL 27.3), construction and reconstruction of industrial buildings and other facilities, acquisition of equipment and intangible assets.

In the autumn of 2006, rehabilitation of one of the most important substations in the transmission grid, the 330/110/10kV Vilnius substation, was started. The objective of the rehabilitation project is to modernize the substation by replacing all 330/110/10 kV equipment and power transformers. The total price of the project is approx. MLTL 85. The Company intends to finance the project from its own funds.

In the first quarter of 2006 the executives of three Baltic energy companies – Lietuvos Energija AB, Eesti Energia and Latvenergo, on the basis of the Communiqué signed by the Prime Ministers of all three countries on 27 February 2006, signed a Memorandum of Understanding regarding preparation for construction of a new nuclear reactor in the site of Ignalina Nuclear Power Plant. By signing this Memorandum, the first preparation phase – a Feasibility Study was launched.

At the end of 2006 operation of the high voltage undersea cable interconnecting Estonia and Finland was started. Lietuvos Energija AB owns 25% of shares of Nordic Energy Link AS, the company operating the cable. This interconnection has strategic importance for the power sector of the Baltic States and its integration with the single European Union electricity market. It will enhance the reliability of the power system and will create preconditions for the trade in electricity and relevant services in the Scandinavian electricity market. By using the line Lietuvos Energija AB intends to export about 500 million kWh of electricity per year.

In 2006 the investments of Kauno Energetikos Remontas UAB in PPE amounted to MLTL 2.3, of which MLTL 1.1 were allocated for plant and machinery. The investments were financed by the company's own funds (depreciation and amortization funds); about 13% of the investments were financed by finance leases.

Energetikos Pajėgos UAB for its investments in PPE - purchases of hardware and software allocated LTL'000 35.

The main risks and uncertainties

Economic risks

Due to declining exports, the risks of decreasing revenue and profit in the Company remains. With only one unit operating in Ignalina Nuclear Power Plant and growing domestic demand for electricity, volumes of export and revenue may be impacted by the number of outages of the mentioned unit and the duration of repair works in the case of its faulty operation, as well as by the decisions of the Ignalina NPP management regarding prices and quantities of electricity to be sold to the Company for export purposes.

The risks of decreasing revenue and profit in the subsidiaries have been related to their possible failures to get contract award according to the Law on Public Procurement.

Liquidity risk

These are the risks when the Company may fail to settle on time its financial liabilities as well as the risk to bear losses due to rapidly decreasing financial resources and the growth in cost of new funds to be allocated to cover the shortage of financial resources. Lietuvos Energija AB current liabilities exceed its current assets and the Company's general liquidity ratio is 0.57. The liquidity ratio of the Group is 0.64.

The Company's liquidity risk is managed by planning the movement of daily and short–term (up to 1 year) cash flows as well as by analyzing long-term cash flows. In order to reduce the liquidity risk, certain limits on expenses have been established and are controlled. Overdraft and credit line agreements are used to manage the risks of late coverage of receivables and discrepancies in short-term cash flows (between proceeds and payments).

When credit contracts are concluded, the Company follows the following principles: the amount of liquid assets and unused credit lines and credits in the bank accounts must cover the current liabilities of the Company, including the current portion of long-term borrowings.

Credit risks

The Company's and the Group's credit risks are mainly related to trade receivables. In the balance sheets these receivables are presented net of provisions, which are assessed by the management based on the previous experience and the existing economic environment. Although the credit risks are distributed among major profitably operating industrial entities of Lithuania and reliable foreign customers, the discontinuance of operations of Ekranas AB illustrates that the Company may be subject to such risks.

Interest rate risk

According to the principles of financial risk management approved by the Group companies, the interest expenses must be forecasted with sufficient precision for a period that is not shorter than the period of establishing the ceiling price of the electricity transmission service (three years). The loan portfolio of the Group is formed on the basis of the following principle: at least 50% of all the borrowings must be with fixed interest rate, the remaining borrowings – with floating interest rate. For management of the interest rate risk, the Company enters into interest swap transactions with banks.

Foreign exchange risk

In order to manage the foreign exchange risk, the Company concludes credit contracts only in Euros and Litas. The sales/purchase contracts of the Company and the Group are also mostly denominated in Euros and Litas.

The Company has no significant concentration of foreign exchange risk hence it has not used any financial instruments facilitating control over the foreign exchange risk in 2006.

Analysis of the Group's financial and non-financial results

Sales and services

In 2006, acting as the Transmission System Operator, the Company transmitted 9.4 bn kWh of electricity by high voltage lines to satisfy the domestic demand. Electricity transmission was by 3.6% higher, as compared to 2005: the transmitted quantity of electricity to the distribution company Rytų Skirstomieji Tinklai AB increased by 6.2% and amounted to 4.3 bn kWh, the transmitted quantity to the distribution company VSR increased by 6.8% and amounted to 4bn kWh, the quantity transmitted to eligible customers was 1 bn kWh, i.e. 15.3% less than in 2005, which basically was resulted by discontinuance of the operation of Ekranas AB.

The Company purchases electricity from the power plants included into the public service obligations list and sells it to all suppliers. The volumes (quotas) of such electricity for producers are set by the Ministry of Economy, and the prices - by the National Control Commission for Prices and Energy. In 2006 1.51 bn kWh of electricity complying with public service obligations or 14.6% in the total balance of domestic demand was purchased from producers.

If the quantities of contractual electricity under the agreements signed between producers and suppliers and the quantities of electricity complying with public service obligations are not sufficient, the Company, as the market operator, trades additional electric energy at the auction. In 2006, due to unscheduled repair works of Ignalina NPP, the sales of contractual energy significantly dropped, and the sales of electricity at the auction increased significantly.

The Company has two branches – Kaunas Hydro Power Plant and Kruonis PSP, which are operated as the constituent parts of the transmission system, and electricity produced in these power plants is basically used to compensate the Company's technical losses and to balance electricity production and consumption. Output from these power plants to the grid was 742.5 MkWh, or 6% of the total quantity of electricity produced in the country.

The Company exported 2.1 bn kWh (including 175 MkWh of peak energy, and 324 MkWh of electric energy on weekends and days-off). As compared to 2005, electricity export due to unscheduled repair works of Ignalina NPP dropped by 47%.

In performing other, non-core activities, the Company increased available capacities of information technologies and telecommunications, enhanced sales of the ITT services: in 2006, Lietuvos Energija AB together with the telecommunication operators from Latvia, Estonia and Poland installed 2.5 Gbit/s data transmission channels aimed at interconnection of data transmission networks used by outstanding research institutions in Lithuania and other EU member states. This was one of the biggest telecommunication projects not only in Lithuania, but in the Baltic States as well. After the Company had updated data storage technical resources, the reliability and efficiency of the Company's systems improved, and the scope of leased data storage services to external customers increased.

Revenue and expenses

<u>Revenue</u>

In 2006 total revenue of the Group amounted to MLTL 1,004.
During the reporting year, the price of electricity transmission, including the price of the capacity reservation service, remained unchanged and was 3.47 ct/kWh. It was 6.2% lower when the ceiling price of electricity transmission service, approved in 2006.

Structure of the revenue:
1. For the goods sold and services rendered the Group earned MLTL 980, including:
- MLTL 340 or 34% of total revenue were received for the capacity reservation service;
- MLTL 235 or 23% of total revenue were received from sales of electricity complying with public service obligations;
- MLTL 245 or 24% of total revenue were received from sales of additional electricity at the auction and for sales of regulating and balancing energy;
- MLTL 119 or 12% of total revenue were received from electricity export.

Kauno Energetikos Remontas UAB, including internal turnover of the Group, earned MLTL 43 of revenue (the most part of revenue was received from the following projects: Rehabilitation of Lietuvos Power Plant – MLTL 20, Rehabilitation of Kaunas HPP – MLTL 2.4). Energetikos Pajėgos UAB mainly rendered services for the Group's companies.
2. The Group's revenue from non-core activities amounted to MLTL 22, the most part of them – MLTL 19 were received for information technologies and telecommunications services rendered, including MLTL 12 – for data transmission services. Other gains of the Group amounted to MLTL 1.3 (net result of other gains and losses is provided in the financial statements).
3. Finance income amounted to MLTL 0.7.

<u>Expenses</u>

In 2006 the expenses incurred by the Group amounted to MLTL 982.
Structure of the expenses:
1. Operating expenses of the Group's companies amounted to MLTL 946. The most part of the expenses (MLTL 574) was incurred for electricity purchases, including electricity complying with public service obligations. Depreciation and amortization expenses amounted to MLTL 162, the expenses for cold and operating reserve purchasing from other power plants amounted to MLTL 62.
The expenses incurred by Kauno Energetikos Remontas UAB and Energetikos Pajėgos UAB were insignificant to the total expenses of the Group.
2. The expenses incurred by the Group in non-core activities amounted to MLTL 27, of which MLTL 16 were the expenses of the ITT services rendered to third parties. Other losses of the Group amounted to MLTL 1.2 (only net result of other gains and losses is provided in the financial statements).
3. Finance expenses consisted of the interest expenses that amounted to MLTL 5.3.
4. The share of loss of associated companies amounted to MLTL 2.

Relatively fixed expenses of Lietuvos Energija AB in 2006 were MLTL 14.6 lower than in 2005, because of lower expenses incurred for purchasing of capacity reserve. In 2006, as compared to 2005, the structure of variable expenses changed: expenses for electricity purchases for the domestic market due to unscheduled repair works of Ignalina NPP increased by 18%, and expenses for electricity purchases for export decreased by 40%.

The operating expenses of the Company's attributable to one Litas of revenue during the year dropped from LTL 0.98 to LTL 0.96, in the subsidiaries it remained unchanged (LTL 0.98).

Profit

According to the International Financial Reporting Standards, as adopted by the European Union (EU), during the year 2006 the Group earned MLTL 22.5 of profit before tax, net profit amounted to MLTL 18.7, earnings before interest, income tax, depreciation and amortization (EBITDA) amounted to MLTL 189 (an increase of MLTL 9.3 during the year 2006). The Company's net profit amounted to MLTL 18.4, net profit of Kauno Energetikos Remontas UAB – MLTL 0.6, net profit of Energetikos Pajėgos UAB – MLTL 0.1.

In 2006, the Company's profitability, as compared to the year 2005, due to repair works in Ignalina NPP and decreased export, did not change much – return on equity increased by 0.4 per cent points, return on assets - by 0.3 per cent points, earnings before interest, income tax, depreciation and amortization (EBITDA) increased by MLTL 8.6.

Debts and liabilities

During 2006 the Company borrowed MLTL 192, and repaid MLTL 224 of borrowings (including issued bonds). The Company used amount of MLTL 417 and repaid amount of MLTL 419 under the credit line agreements to manage the short–term shortage of cash flows.

In September 2006 the Company issued bonds with a notional value of MEUR 7.5 (MLTL 25.9) and a maturity period of 1,096 days. Proceeds from these bonds were used for partial repayment of the credit line. Thus the Company's financing needs were satisfied till the end of first half of the year 2007.

During 2006 total financial liabilities decreased by MLTL 34 and at the end of the year amounted to MLTL 117.

Average interest rate on the Company's borrowings during the reported period was 3.5%.

Under the Guarantee Agreements Lietuvos Energija AB guaranteed 25% (MLTL 79.8) of Nordic Energy Link AS liabilities to the banks.

Obligations under finance leases assumed by Kauno Energetikos Remontas UAB amounted to MLTL 0.5. Energetikos Pajėgos UAB had no borrowings.

Personnel and environmental protection

At the end of 2006 the Group employed 1,798 people. Lietuvos Energija AB employees were 63% of the total number of employees in the Group, Kauno Energetikos Remontas – 35%, Energetikos Pajėgos UAB – approx. 2%.

The number of employees in Lietuvos Energija AB has remained almost unchanged since 2003. In the total number of employees 19% are females, 81% - males. More than 55% of the Company's employees have university degrees, the average age - 44 years. The Company actively implements the policy of qualification improvement, and in 2006 spent MLTL 1 for this purpose. Moreover, about MLTL 0.5 was spent for training under the investment projects.

In the latter years the number of Kauno Energetikos Remontas UAB employees has been continuously decreasing. Due to their intensive turnover (welders, electro-fitters are leaving Lithuania for higher salaries abroad) the number of skilled workers has been falling. In 2007 the company intends to hire 90 new employees. In the total number of employees of the subsidiary 19% are females, 81% - males, about 28% of employees have university degrees, the average age – 53 years. In 2006 Kauno Energetikos Remontas UAB spent MLTL 0.2 for the development of personnel; attention was focused on the improvement of qualifications and competences in new technologies of turbines and electric equipment.

In its operations Lietuvos Energija AB seeks to sparingly use natural resources, implements new, eco-friendly technologies and strives to operate in line with the requirements of environmental laws and standards.

All hazardous waste (compressor oil waste containing water, sludge from water treatment equipment contaminated with oil products, other oils and their mixtures unsuitable for further use, emulsion of compressor oil and water, contaminated absorbents and wipers, lead and electrolyte scrap from accumulator batteries, luminescence lamps, tires, etc.) was continuously utilized in the Company by hiring special licensed companies for this purpose. The entire process of utilization of all hazardous waste is supervised and controlled by the Company's specialists.

In 2006, 60 tones of reinforced concrete and porcelain insulator waste were handed over for processing and for the production of break stone to be used in road construction, as well as 220 tones of ferrous scrap metal and 13.5 tones of non-ferrous scrap metal. The Company joint the initiative of the Ministry of the Environment to collect spent batteries; the batteries were collected free of charge into special containers in the Company's divisions and branches. Sorting out of household waste was started; paper and cardboard waste was handed over for recycling.

To protect the environment, preventive measures were implemented:
- A new integrated pollution prevention and control permit was approved and issued for Kruonis Pumped Storage Plant and Dubingiai Seminar and Conference Centre;
- Pollution from stationary and mobile pollution sources, taxable products and taxable package, chemical materials is continuously monitored, taxes were calculated and reports were generated;

- The slopes of Pakalniškiai mound located at the bay of Kaunas Hydro Power Plant, which had been affected by erosion processes, were reinforced;
- In the former territory of heavy fuel oil storage facilities (next to the head office) monitoring of underground water was carried out in accordance to the program compiled in 2003 – 2006.

References and additional explanations about information presented in the Company's Financial Statements and the Consolidated Financial Statements of the Group

More detailed explanations of financial information are provided in the Explanatory Note to the Financial Statements for the year 2006.

Major events from the end of the previous financial year, plants and forecasts of the Group's operations

At 8 December 2006 Lietuvos Energija AB and Polskie Sieci Elektroenergetyczne (Poland) signed a preliminary agreement on the establishment of a joint venture which will implement the interconnection project of Lithuanian and Polish grids. During a six-month period, a working group formed from representatives of both parties will perform legal, financial and technical analyses and will prepare documents deemed necessary for the establishment of the joint venture. After the completion of construction of this missing interconnection link, a Baltic Ring interconnecting the power systems of Lithuania, Latvia, Estonia, Finland, Sweden and Poland will be completed. This will promote the safety and reliability of functioning of the electric grids of the Baltic countries. During the first stage of the project, it is planned to construct more than 100 km of high voltage transmission lines in both countries and to install a back-to-back converter of 1,000 MW capacity in Lithuania.

At 6 February 2007 in Stockholm Lietuvos Energija AB and Swedish transmission system operator Svenska Kraftnat signed an agreement with Swedish company SWECO International, which had been selected for the contract award after the public tender, on preparation of a feasibility study for interconnection of transmission systems of both countries. The study will evaluate the feasibility of interconnection of Lithuanian and Swedish power grids by constructing the undersea cable of approx. 350 km length and 700 – 1,000 MW capacity across the Baltic Sea. This interconnection is important for promotion of energy safety and reliability of electricity supply of the entire Baltic region as well as for integration of the Baltic States with the European Union's electricity market. It is projected to complete the study in September 2007.

In the nearest future major changes may occur in the structure of the Company related to meeting the compliance requirements of the EU Directives and to enhance the Company's capacity to participate in the projects of national importance. However, at the moment of preparation of this report no final decisions were made regarding restructuring of the Company, thus during preparation of the projections for the year 2007 it has been assumed that in 2007 Lietuvos Energija AB will continue operations which were carried out by the Company in 2006: it will perform the functions of the transmission system operator and the market operator, produce and export electricity, render the ITT and telecommunication services.

In October 2006 the Board approved a preliminary financial plan of the Company for the year 2007. It is projected that the Company's financial performance indicators will not go below those which were achieved in 2006.

In 2007 for refinancing of borrowings and financing of the working capital it will be necessary to borrow up to MLTL 13, and during the year it is planned to repay MLTL 69 of borrowings to the banks (without taking into account the used or repaid credit lines used to balance the short-term cash flows demand).

It is projected to allocate MLTL 163 for investments, including MLTL 85 allocated for construction of substations in the transmission grid, repairs and refurbishment increasing the value of the assets; MLTL 54 will be allocated for rehabilitation of the power plants.

It has been planned to use MLTL 145 of the Company's own funds to finance the investments, MLTL 18 will be covered by grants.

The subsidiaries project that their performance will not be worse than in 2006. Kauno Energetikos Remontas UAB intends to allocate MLTL 4.5 for investments, including MLTL 3 allocated for purchases of machinery and equipment (it has been planned to purchase a plasma gas metal cutting machine at a price of approx. MLTL 2). Energetikos Pajėgos UAB does not plan any significant investments.

Information on research and development

On purpose to facilitate the implementation of the technically and economically sound investment policy, the Company prepares programs aimed at increasing the power system's efficiency and its development. These programs are basically implemented on the account of investments allocated for the construction, development or modernization of energy facilities. One of the main goals is the refurbishment of energy facilities by replacement of the existing equipment with new and modern ones and by implementing up-to-date relay protection, system automation, control, and information collection and transmission systems.

Lietuvos Energija AB has drawn the perspective plans of new construction and reconstruction works, which have been prepared in compliance with the approved National Energy Strategy, completed studies and other research. Annual investment plans are made on the basis of long-term plans.

In 2006 the value of continued or started new research works amounted to MLTL 2.2.

The studies were focused on the issues of improvement of reliability of the transmission system:

- The power system's reliability was assessed by means of short-term planning; allocation of reserve capacities by ensuring indiscriminately access to the grid for all market players and by simultaneously ensuring the system reliability and stability was analyzed; probabilities of disconnection of the power system components and possible network overloads were evaluated from the mathematical and statistical point of view; technical and organizational measures necessary for network reliability and stability in planning daily, weekly and monthly operation of the power system were examined;
- The analysis of fluctuations in parameters of frequency characteristics of the Lithuanian power system was carried out by making a survey of methods used to access parameters of frequency characteristics in a power system and by implementing these methods in practice in the Lithuanian power system;
- The methodological instructions on planning reactive power and voltage reserves enabling to establish available and indispensable reserves of reactive power and voltage in daily operations of Lietuvos Energija AB Dispatch Centre were prepared along with the assessment of the Lithuanian Power System's reliability and stability, optimization of operation of transmission grids and identification of necessary scopes of system services.

Information about shares

Lietuvos Energija AB having majority of votes in all subsidiaries made significant influence on their operations and elected their management bodies. It is planned that during distribution of the profit for the year 2006, a part of profit will be allocated for dividends.

During the preparation of the consolidated financial statements for the year 2006, Lietuvos Energija AB consolidated the financial statements of Kauno Energetikos Remontas UAB and Energetikos Pajėgos UAB. Except that, Lietuvos Energija AB is the only founder of Energetikų Mokymo Centras VšĮ. Whereas the Company cannot control the economic benefit of this institution (Energetikų Mokymo Centras VšĮ is a non-profit organization), the financial statements of this institution were not consolidated in the Group's financial statements.

Share capitals of subsidiaries and number of shares owned by Lietuvos Energija AB in these companies at the beginning and at the end of 2006 consisted of the following:

No.	Subsidiary	Shares of subsidiaries held by Lietuvos Energija AB		
		Number of shares	Total nominal value, LTL	Portion of represented share capital, %
	As of 31 December 2006:			
1.	Kauno Energetikos Remontas UAB	31,340,763	31,340,763	100
2.	Energetikos Pajėgos UAB	430,400	430,400	100
	As of 31 December 2005:			
1.	Kauno Energetikos Remontas UAB	31,340,763	31,340,763	100
2.	Energetikos Pajėgos UAB	430,400	430,400	100

In 2006 Lietuvos Energija AB did not purchase or transfer any of its shares. No shares of other companies were acquired or disposed during the reporting period. The procedures undertaken for liquidation of DC Baltija, started in 2006, had to be completed by 31 December 2006. Presently all assets of DC Baltija are sold, the company may be removed from the Register of Companies in first half of the year 2007. Under the respective agreement, the functions of this company have been taken over by the TSO Dispatch Centers of the Baltic States.

Lietuvos Energija AB is the parent company of the Group. The main shareholder of the Company, having control over 96.57% of its shares is the Republic of Lithuania, represented by the Ministry of Economy. A part of the shares held by the Ministry of Economy decreased during the year (96.62% were held by the state as of 31 December 2005) after compensations paid in the state-owned Company's shares to the citizens for the existing real property subject to restoration of their ownership rights.

The share capital of Lietuvos Energija AB did not change during the reporting year.

Lietuvos Energija AB notice regarding the implementation of the Corporate Governance Code for the Companies Listed on the Vilnius Stock Exchange

Abiding by Article 21, Paragraph 3 of the Law on Securities of the Republic of Lithuania and Item 20.5 of Trade Rules of the joint stock company Vilnius Stock Exchange, Lietuvos Energija AB hereunder discloses its non-compliance with specific provisions of the approved Corporate Governance Code for the Companies listed on the Vilnius Stock Exchange and provides the reasons thereof:

PRINCIPLES/ RECOMMENDATIONS		COMMENTARY
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.	NO	Since this provision is new in the Company's practice, in the future the Company intends to disclose such information
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	NO	Since this provision is new in the Company's practice, the Company has no established practices for the assessment of qualifications of the members of a collegial body.
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.	NO	Since this provision is new in the Company's practice, the Company has no established practices for its implementation
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 number of independent members.	NO	„Independence" in the Company is treated in a more restricted manner than it is recommended in the Code.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: • 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; • 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; • 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); • 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); • 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 relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; • 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; • 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; • He/she has not been in the position of a member of the collegial body for over than 12 years; • He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	NO	„Independence" in the Company is treated in a more restricted manner than it is recommended in the Code.

PRINCIPLES/ RECOMMENDATIONS		COMMENTARY
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	The Company has no established practices yet on the disclosure of information regarding independence of the members of the Supervisory Board.
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	„Independence" in the Company is treated in a more restricted manner than it is recommended in the Code.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.
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 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.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	NO	The Company has no established practices yet on the formation of committees in the collegial bodies of the Company.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) 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; 2) 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; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.

PRINCIPLES/ RECOMMENDATIONS		COMMENTARY
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) 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; 2) 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; 3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) 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); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) 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); 2) 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; 3) 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; 4) 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; 5) 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; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 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.	NO	The Company has no established practices yet in the formation of committees in the collegial bodies of the Company.

PRINCIPLES/ RECOMMENDATIONS		COMMENTARY
4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	NO	The Company has no established practices in disclosure of respective information
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. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	NO	The transactions' criteria to be approved by the shareholders meeting are set forth neither by the Law on Joint Stock Companies nor by the Articles of Association of the Company
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. 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.	NO	The Company has no established practices yet in disclosure of respective information
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	NO	The Company has no established practices yet to vote in general meetings via terminal equipment of telecommunications
8.1. A company should make a public statement of the company's remuneration policy (thereafter 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	The Company has no established practices yet in disclosure of respective information
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	The Company has no established practices yet in disclosure of respective information
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.	NO	The Company has no established practices yet in disclosure of respective information
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	The Company has no established practices yet in disclosure of respective information
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	The Company has no established practices yet in disclosure of respective information

PRINCIPLES/ RECOMMENDATIONS		COMMENTARY
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	NO	The Company has no established practices yet in disclosure of respective information
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: 1) 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; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) 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; 5) 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; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) 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; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the 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.	NO	The Company has no established practices yet in disclosure of respective information
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	NO	The Company has no established practices yet in disclosure of respective information
8.9 The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.		
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.		

PRINCIPLES/ RECOMMENDATIONS		COMMENTARY
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.		
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. 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. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	NO	The Company has no established practices yet in disclosure of respective information

Lietuvos Energija AB General Director

Rymantas Juozaitis

BALANCE SHEETS
As of 31 December 2006
All amounts are in LTL thousands, unless otherwise stated

	Notes	Group 2006	Company 2006	Group 2005	Company 2005
ASSETS					
Non-current assets:					
Intangible assets	4	6,822	6,751	6,058	5,968
Property, plant and equipment	5	2,548,338	2,522,033	2,562,739	2,536,646
Investments in subsidiaries	6	-	31,755	-	31,755
Investments in associates	6	21,172	21,172	24,117	24,117
Other receivables	7	7,792	7,792	8,932	8,932
Other financial assets	8	344	309	380	346
Total non-current assets		**2,584,468**	**2,589,812**	**2,602,226**	**2,607,764**
Current assets:					
Inventories	9	12,702	6,393	14,050	5,880
Prepayments		2,613	2,353	1,195	1,112
Trade receivables	10	95,774	88,125	109,434	103,879
Other receivables	11	9,088	8,990	11,505	11,021
Other assets		836	678	250	238
Cash and cash equivalents	12	4,788	1,357	5,738	2,949
Total current assets		**125,801**	**107,896**	**142,172**	**125,079**
TOTAL ASSETS		**2,710,269**	**2,697,708**	**2,744,398**	**2,732,843**
EQUITY AND LIABILITIES					
Capital and reserves:					
Share capital	13	689,515	689,515	689,515	689,515
Share premium		3	3	3	3
Legal reserve	14	70,407	68,952	69,355	68,952
Other reserves	15	1,394,560	1,392,429	102,503	100,384
Retained earnings		17,651	18,385	1,300,155	1,300,169
Foreign currency translation reserve		(6)	-	(5)	-
Equity attributable to equity holders of the Parent		**2,172,130**	**2,169,284**	**2,161,526**	**2,159,023**
Minority interest		1	-	1	-
Total equity		**2,172,131**	**2,169,284**	**2,161,527**	**2,159,023**
Non-current liabilities:					
Borrowings	16	70,440	70,440	101,637	101,637
Issued bonds	18	25,896	25,896	-	-
Obligations under finance leases	17	119	-	107	-
Provisions	19	-	-	2,209	2,209
Grants	20	24,340	24,265	16,642	16,544
Deferred income tax liabilities	22	220,034	219,622	235,623	235,158
Total non-current liabilities		**340,829**	**340,223**	**356,218**	**355,548**
Current liabilities:					
Borrowings	16	20,581	20,581	23,079	23,079
Issued bonds	18	-	-	25,896	25,896
Obligations under finance leases	17	263	-	466	-
Derivative financial instruments	30	-	-	89	89
Current income tax liabilities		1,334	1,287	483	396
Trade and other payables	21	175,131	166,333	176,640	168,812
Total current liabilities		**197,309**	**188,201**	**226,653**	**218,272**
TOTAL EQUITY AND LIABILITIES		**2,710,269**	**2,697,708**	**2,744,398**	**2,732,843**

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

INCOME STATEMENTS
For the year ended 31 December 2006
All amounts are in LTL thousands, unless otherwise stated

	Notes	Group 2006	Company 2006	Group 2005	Company 2005
Revenue	23	980,266	938,906	971,884	930,033
Operating expenses	23	(946,251)	(906,003)	(949,770)	(908,402)
Other income	24	21,805	21,333	23,109	21,843
Other expenses	25	(26,932)	(26,132)	(23,372)	(21,690)
Other gains (losses), net	26	106	(1,739)	805	70
OPERATING PROFIT		**28,994**	**26,365**	**22,656**	**21,854**
Finance income		683	618	260	260
Finance costs		(5,256)	(5,234)	(5,336)	(5,314)
Share of loss of associates		(1,960)	-	(748)	-
PROFIT BEFORE INCOME TAX		**22,461**	**21,749**	**16,832**	**16,800**
Income tax expense	22	(3,756)	(3,388)	(6,852)	(6,668)
NET PROFIT		**18,705**	**18,361**	**9,980**	**10,132**
ATTRIBUTABLE TO:					
Equity holders of the Company		18,705	18,361	9,980	10,132
Minority interest		-	-	-	-
		18,705	**18,361**	**9,980**	**10,132**
Basic and diluted earnings per share (LTL)	**28**	**0.03**	**0.03**	**0.01**	**0.01**

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

STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2006
All amounts are in LTL thousands, unless otherwise stated

Group	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Foreign currency translation reserve
Balance as of 31 December 2004		**689,515**	**3**	**69,276**	**36,554**	**1,368,292**	**(5)**
Dividends	29	-	-	-	-	(12,089)	-
Transfer to reserves	15	-	-	79	68,940	(69,019)	-
Reserves used	15	-	-	-	(2,991)	2,991	-
Net profit for the period		-	-	-	-	9,980	-
Balance as of 31 December 2005		**689,515**	**3**	**69,355**	**102,503**	**1,300,155**	**(5)**
Dividends	29	-	-	-	-	(8,100)	-
Changes in equity arising on foreign currency exchange rate change		-	-	-	-	-	(1)
Transfer to reserves	15	-	-	1,052	1,295,670	(1,296,722)	-
Reserves used	15	-	-	-	(3,613)	3,613	-
Net profit for the period		-	-	-	-	18,705	-
Balance as of 31 December 2006		**689,515**	**3**	**70,407**	**1,394,560**	**17,651**	**(6)**

STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2006
All amounts are in LTL thousands, unless otherwise stated

Company	**Notes**	**Share capital**	**Share premium**	**Legal reserve**	**Othe reserv**
Balance as of 31 December 2004		**689,515**	**3**	**68,952**	**34**
Dividends	29	-	-	-	
Transfer to reserves	15	-	-	-	68
Reserves used	15	-	-	-	(2,
Net profit for the period		-	-	-	
Balance as of 31 December 2005		**689,515**	**3**	**68,952**	**100**
Dividends	29	-	-	-	
Transfer to reserves	15	-	-	-	1,295
Reserves used	15	-	-	-	(3,
Net profit for the period		-	-	-	
Balance as of 31 December 2006		**689,515**	**3**	**68,952**	**1,392**

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

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2006
All amounts are in LTL thousands, unless otherwise stated

	Group 2006	Company 2006	Group 2005	Company 2005
Cash flows from / (to) operating activities				
Net profit	18,705	18,361	9,980	10,132
Adjustments for non-cash expenses (income) items and other adjustments				
Depreciation and amortization	161,558	159,614	157,635	155,717
Change in deferred income tax liabilities	(15,589)	(15,536)	(9,769)	(9,698)
Impairment of assets	6,029	7,897	5,305	6,039
Share of loss of associates	1,960	-	748	-
Reversal of provisions	(1,521)	(1,521)	-	-
Income and social tax expense	19,345	18,924	16,621	16,366
Income from grants	(999)	(976)	(2,308)	(2,285)
(Profit) loss from disposal of non-current assets (excluding financial assets)	3,348	3,400	(604)	(604)
Elimination of financial and investment activity results:				
- Dividends	-	(208)	-	(321)
- Foreign currency exchange loss (gain), net	92	83	(442)	(434)
- Finance costs	5,256	5,234	5,336	5,314
- Finance income	(683)	(618)	(260)	(260)
- Income from other financial activities	(602)	(592)	(821)	(304)
Changes in working capital				
(Increase) decrease in inventories	1,097	(673)	(1,742)	767
Increase in prepayments	(1,406)	(1,229)	(147)	(107)
Decrease in trade receivables	11,022	11,426	30,279	29,460
Decrease in other receivables	2,012	1,629	7,294	7,490
Increase in other current assets	(11)	(14)	(12)	-
Income tax paid	(18,494)	(18,033)	(22,564)	(22,216)
Decrease in provisions	(688)	(688)	(1,397)	(1,397)
Decrease in current trade payables and advances received	(6,319)	(4,230)	(28,324)	(32,438)
Increase in payroll related liabilities	620	338	229	161
Increase (decrease) in other accounts payable	2,388	1,299	(2,248)	110
Net cash flows from operating activities	***187,120***	***183,887***	***162,789***	***161,492***
Cash flows from / (to) investing activities				
Purchases of non-current assets (excluding financial investments)	(144,036)	(142,274)	(136,323)	(135,523)
Proceeds on disposal of non-current assets (excluding financial investments)	670	588	14,320	14,312
Loans granted	-	-	(8,842)	(8,842)
Loan repayments received	1,489	1,489	1,047	1,047
Proceeds on disposal of investments	51	51	46	46
Acquisition of investments	-	-	(19,028)	(19,028)
Term deposit	(150)	-	-	-
Dividends received	-	208	-	321
Interest received	665	601	260	260
Other cash flows to investing activities	-	-	(24)	-
Net cash flows to investing activities	***(141,311)***	***(139,337)***	***(148,544)***	***(147,407)***
Cash flows from / (to) financial activities				
Proceeds from borrowings	166,275	166,275	235,058	235,056
Proceeds from issuance of bonds	25,896	25,896	25,896	25,896
Bonds redeemed	(25,896)	(25,896)	-	-
Repayments of borrowings	(199,970)	(199,970)	(254,937)	(254,937)
Repayments of obligations under finance leases	(594)	-	(487)	-
Dividends paid	(8,084)	(8,084)	(12,021)	(12,021)
Interest paid	(5,018)	(4,995)	(5,243)	(5,221)
Realized derivative financial instruments	395	395	-	-
Other cash flows from financing activities	237	237	-	-
Net cash flows to financing activities	***(46,759)***	***(46,142)***	***(11,734)***	***(11,227)***
Net (decrease) increase in cash and cash equivalents	**(950)**	**(1,592)**	**2,511**	**2,858**
Cash and cash equivalents at the beginning of the period	**5,738**	**2,949**	**3,227**	**91**
Cash and cash equivalents at the end of the period	**4,788**	**1,357**	**5,738**	**2,949**

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

1. *General information*

Lietuvos Energija AB is a public limited liability company registered in the Republic of Lithuania. Its head office is located in Žvejų str. 14, LT-09310, Vilnius, Lithuania. Lietuvos Energija AB ("the Company") is a limited liability profit-seeking entity, registered at the Register of Legal Persons managed by Registrų Centras VĮ. Company registration No. BĮ 99-74, Company code 220551550, VAT payer's code LT205515515. The Company is established for an unlimited period.

At 4 March 1995 the Company took over the rights of the former Production Energy and Electrification Board established originally in 1940 and reorganized into the Lithuanian State Energy System at 27 March 1991, after the restoration of Independence of the Republic of Lithuania. The Company was re-registered at 13 April 1999 at the Ministry of Economy.

The share capital of the Company did not change during the years ended 31 December 2006 and 2005 and as of 31 December 2006 and 2005 amounted to LTL 689,515,435 and was divided into 689,515,435 ordinary registered shares with the nominal value of one Litas each. All the shares are fully paid. The shares of the Company are traded on Vilnius Stock Exchange in the current trading list. In 2006 and 2005 the Company did not purchase its own shares. As of 31 December 2006 the main shareholder of Lietuvos Energija AB was the state of Lithuania holding 96.57% of the Company's shares. The key manager of the state-owned shares is the Ministry of Economy of the Republic of Lithuania. The remaining 3.43% of the Company's shares are held by other shareholders.

Main activities of the Company in 2006 were as follows: transmission system operator, market operator, production of electricity and exporter of electricity. Along with these key activities, the Company is entitled to carry out any other lawful commercial-economic activities indicated in the bylaws of the Company.

Licensed activities or activities that require permits can be carried out only after obtaining the appropriate licenses or permits. Since 22 March 2002 the Company has a license for energy transmission, which is valid for an unlimited period (unless it is suspended or cancelled). The Company has permits of unlimited validity to engage in production, import and export of electricity.

As of 31 December 2006 and 2005 the Company had 2 branches: Kaunas Hydro Power Plant (HPP) and Kruonis Pumped Storage Plant (PSP). Branches are operating according to the regulations approved by the Board of the Company for every branch individually.

At the date of these financial statements the Company directly participated (controlled or had significant influence) in the management of these companies: Baltijas Energosistemu Dispečeru Centrs SIA ("DC Baltija"), Nordic Energy Link AS, Energetikos Pajėgos UAB, Geoterma UAB, Kauno Energetikos Remontas UAB. Indirectly, through Kauno Energetikos Remontas UAB, the Company had majority of votes in Gotlitas UAB, Rygas Energetikas Remonts SIA and Kaliningradskij Energoremont OOO. DC Baltija holds the liquidation status (See note 6 Investments).

These financial statements for the year 2006 include consolidated Lietuvos Energija AB and its subsidiaries' financial statements and separate financial statements of Lietuvos Energija AB. The Group consists of Lietuvos Energija AB and the following subsidiaries directly and indirectly controlled by the Company:

Company	Registered address	Shares held by the Group	Share capital of subsidiary (LTL)	Profit (loss) for reporting period (LTL)	Equity as of 31 December 2006 (LTL)	Main activity
Energetikos Pajėgos UAB	T.Masiulio str. 16d, Kaunas, Lithuania	100%	430,400	125,268	741,465	Design of energy projects
Kauno Energetikos Remontas UAB	Chemijos str. 17, Kaunas, Lithuania	100%	31,340,763	583,164	35,528,268	Repair of energy equipment, manufacture of metal constructions
Gotlitas UAB	R.Kalantos str. 119, Kaunas, Lithuania	100%	1,450,000	3,317	1,436,146	Accomodation services, trading activities
Rygas Energetikas Remonts SIA	Riga district. p.n. Acone Salaspils, Latvia	100%	14,546 (LVL 2,000)	(35,350)	9,392	Repair of energy equipment
Kaliningradskij energoremont OOO	Jaltinskaya str. 66, Kaliningrad, Russia	99%	1,349 (RUB 9,900)	2,862	34,549	Repair of energy equipment

(Continued)

1. *General information (continued)*

As of 31 December 2006 the number of employees of the Group was 1,797 (1,871 as of 31 December 2005). 847 employees were employed at the head office and transmission network (838 as of 31 December 2005), 295 – in branches (290 as of 31 December 2005), Energetikos Pajėgos UAB - 19 (19 as of 31 December 2005), Kauno Energetikos Remontas UAB - 597 (686 as of 31 December 2005), Gotlitas UAB - 20 (20 as of December, 2005), Rigas Energetikos Remontas SIA - 1 (1 as of 31 December 2005), Kaliningradskij energoremont OOO - 18 (17 as of 31 December 2005).

At 8 March 2006 the heads of three Baltic energy companies – Lietuvos Energija, Eesti Energia and Latvenergo signed a memorandum of understanding regarding the preparation for construction of a new nuclear reactor in Lithuania. The basis for signing this Memorandum was laid at 27 February 2006, when Lithuanian, Latvian and Estonian Prime Ministers signed a Declaration on security of electricity supply in the Baltic States and the common European energy policy along with the Communiqué regarding common Baltic energy strategy and initiative to construct a new nuclear power plant in Lithuania. By signing this Memorandum the first preparation phase – a Feasibility Study was launched. At 25 October 2005 the project's Steering Committee approved the results of the Feasibility Study on the construction of a new nuclear reactor in Lithuania. During the Study there was a feasibility to construct a new nuclear facility in Lithuania assessed with regard to economic, technical, financial and legal aspects in the Baltic States and the European Union and it was established that the project of construction of a new nuclear power plant is feasible. Further implementation of the project will be regulated by the laws of the Republic of Lithuania and other legal acts which were under preparation during compilation of these financial statements.

The Company actively searches for opportunities in various electricity markets to compensate the decreased export income and join the alternative electricity grids of West Europe. Starting from April 2005 the Company is participating in an international investment project ESTLINK (laying of underwater 350 MW power cable, connecting the Baltic and Scandinavian countries) by acquiring 25% of the shares of the newly established company Nordic Energy Link AS and investing MEUR 5.5. At 4 January 2007 a trade of electricity by a new undersea cable was started (see also Note 33 – Subsequent Events).

The Company is a member of Lithuanian Electricity Association, Lithuanian Confederation of Industrialists, Vilnius Chamber of Trade, Industry and Crafts. Since 1998 the Company has been participating in the activities of BALTREL (Baltic Ring Electricity Co-operation Committee). From February 2004 the Company is a member of CIGRE (International Council on Large Electric systems). In February 2005 the Company became a full member of ETSO (European Transmission System Operators). In March 2006 the Company together with the transmission system operators of Estonia and Latvia established the cooperation organization BALTSO, aimed to solve basic issues related to parallel operation of the power systems of the Baltic States. The specialists of the Company take active participation in the activities of the association representing common interests of the European electricity sector - EURELECTRIC and in the national committee of the World Energy Council. The Company is also a member of a joint committee of the Baltic States, Russia and Belarus (BRELL), established for coordination of parallel operation of the power systems of these countries.

At 13 August 2006 an international rating agency Moody's confirmed a corporate long-term credit rating A2 for borrowings in foreign currency and established a stable rating outlook.

At 8 November 2006 an international rating agency Standard & Poor's confirmed a corporate long-term credit rating A- for borrowings in foreign currency and established a stable rating outlook.

2. *Significant accounting policies*

The main accounting policies adopted in preparing the Company's financial statements and Group's consolidated financial statements for the year ended 31 December 2006 are as follows:

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union (the "EU"). IFRSs as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Company and the Group has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Company's and the Group's financial statements had they been endorsed by the EU at the balance sheet date. Therefore, as a matter of reference, the term "IFRS" is hereafter used and referring to both IFRS and IFRS as adopted by the EU.

The financial statements have been prepared on the historical cost basis, except for Property, plant and equipment, acquired before 1 January 2004, which are stated at deemed cost less any subsequent accumulated depreciation and accumulated impairment loss (see item 2.6 below) and revaluation of derivative financial instruments to fair value.

In the current year the Company and the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Company's and the Group's accounting policies.

a) Standards, amendments and interpretations effective in 2006, but not relevant to the Company's and the Group's accounting policies

The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Group's accounting policies:

- IAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 (Amendment), The Fair Value Option (effective for annual periods beginning on or after 1 January 2006);
- IAS 21 (Amendment), Net Investments in a Foreign Operation (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective for annual periods beginning on or after 1 January 2006);
- IFRS 6, Exploration for and evaluation of mineral resources (effective for annual periods beginning on or after 1 January 2006);
- IFRIC 4, Determining Whether an Arrangement Contains a Lease (effective for annual periods beginning on or after 1 January 2006);
- IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective for annual periods beginning on or after 1 January 2006); and
- IFRIC 6, Liabilities arising from participating in a specific market – waste electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005).

b) Standards, amendments and interpretations that are issued, but not yet effective and have not been early adopted by the Company and the Group

At the date of authorization of these financial statements, the following Standards and Interpretations were issued but not yet effective:

- IAS 1 (Amendment), Capital disclosures (effective for annual periods beginning on or after 1 January 2007);
- IFRS 7, Financial Instruments: Disclosure (supersedes IAS 30) (effective for annual periods beginning on or after 1 January 2007);
- IFRS 8, Operating segments (effective for annual periods beginning on or after 1 January 2009) (not yet endorsed by the EU);
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006) (not yet endorsed by the EU);
- IFRIC 11, IFRS 2, Group Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007) (not yet endorsed by the EU); and
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008) (not yet endorsed by the EU).

(Continued)

2.1 Basis of preparation (continued)

The management of the Company and the Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company and the Group.

The financial year of the Company and other companies of the Group coincides with the calendar year.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Lietuvos Energija AB and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2.3 Business Combinations

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

2.4 Investments in subsidiaries

A subsidiary is a company over which the parent has control. Investments in subsidiaries are stated at cost less impairment losses recognized, where the investment's carrying amount in the parent only financial statements exceeds its estimated recoverable amount.

2.5 Investments in associates

An associate is an entity over which the Company and the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates in the parent only financial statements are stated at cost less impairment losses recognized, where the investment's carrying amount exceeds its estimated recoverable amount.

The results and assets and liabilities of associates are incorporated in the Group's consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(Continued)

2.5 Investments in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where the Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

2.6 Property, plant and equipment and intangible assets

Property, plant and equipment, acquired before 1 January 2004, are carried at a deemed cost less any subsequent accumulated depreciation and accumulated impairment losses. The Property, plant and equipment at the date of transition to IFRS were stated at their fair value and the fair value was considered to be their deemed cost at the date of transition.

Property, plant and equipment acquired or constructed by the Company and the Group subsequent to the date of transition to IFRS (1 January 2004) are stated at acquisition cost less any subsequent accumulated depreciation and accumulated impairment losses.

Construction-in-progress represents Property, plant and equipment under construction. Such assets are carried at acquisition cost, less any recognized impairment losses. Cost includes design, construction works, plant and equipment being mounted and other directly attributable costs.

Intangible assets are stated at historical cost, less any subsequent accumulated amortization and accumulated impairment losses.

All assets, except for real estate, in excess of LTL 2,000 are capitalized. Real estate is capitalized, with no regards to its acquisition cost.

Depreciation (amortization) of Property, plant and equipment and intangible assets, other than construction-in-progress, is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Estimated useful lives of Property, plant and equipment and intangible assets are as follows:

Groups	Useful lives (years)
Buildings and structures	7 - 75
Machinery and equipment	4 - 40
Vehicles	4 - 10
Other equipment, tools and devices	3 - 15
Other PPE	4 - 80
Intangible assets	3 - 4

Average useful lives of the core business Property, plant and equipment asset items are as follows:

	Average useful lives (years)
Constructions of transformer substations	30
330, 110, 35 kV electricity transmission lines	40 - 55
330, 110, 35, 6-10 kV electricity distribution equipment	30 - 35
330, 110, 35, 6-10 kV power transformers	35
Relay security and automation equipment	15 - 35
Technological and dispatcher control equipment	8

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal or retirement of an item of Property, plant and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Company and Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

2.7 Impairment of PPE and intangible assets

At each balance sheet date, the Company and the Group reviews the carrying amounts of its PPE and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company and the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.8 Financial assets

Investments are recognized and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction cost.

Financial assets are classified into the following specified categories: "held to maturity investments" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income on debt instruments is recognized in profit or loss on an effective interest rate basis.

Held-to-maturity financial assets
Financial assets with fixed or determinable payments and fixed maturity dates that the Company and the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity financial assets. Held-to-maturity financial assets are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method less impairment loss recognized to reflect irrecoverable amounts.

Income on held-to-maturity financial assets is recognized in profit or loss on an effective interest rate basis.

Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method less impairment loss recognized to reflect irrecoverable amounts.

(Continued)

2.8 Financial assets (continued)

Interest income is recognized in profit or loss by applying the effective interest rate, except for short-term receivables when the recognition of interest would be insignificant.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been effected. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.9 Inventories

Inventories are initially measured at cost and are subsequently measured at the lower of cost and net realizable value. Costs comprise direct materials and, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined by the first-in, first-out method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks, demand deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 Financial liabilities and equity instruments issued by the Company and the Group

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective interest rate basis (see item 2.8 in above).

2.12 Foreign currency translation

Transactions denominated in foreign currency other than Litas (LTL) are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

The applicable rates used for principal currencies were as follows:

31 December 2006			31 December 2005		
EUR 1	=	LTL 3.4528	EUR 1	=	LTL 3.4528
LVL 1	=	LTL 4.9537	LVL 1	=	LTL 4.9565
RUB 100	=	LTL 9.9708	RUB 100	=	LTL 10.1312
SEK 10	=	LTL 3.8251	SEK 10	=	LTL 3.6644
USD 1	=	LTL 2.6304	USD 1	=	LTL 2.9102
EEK 10	=	LTL 2.2067	EEK 10	=	LTL 2.2067

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Litas (LTL), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Litas using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized in the income statement in the period in which the foreign operation is disposed of.

2.13 Grants

Grants are accounted for on an accrual basis of accounting, i.e. grants are credited to income statement in the periods when related expenses, which they are intended to compensate, incur.

Grants related to assets
Grants related to assets include asset acquisition financing and non-monetary grants. Initially such grants are recorded at the fair value of the corresponding assets and subsequently credited to income statement over the useful lives of related non-current assets offset with depreciation expenses of the corresponding assets.

Grants related to income
Grants related to income are received as a reimbursement for the expenses already incurred and as a compensation for unearned revenue, and also all other grants than those related to assets. Grants are recognized when they are received or there is a reasonable assurance that they will be received. Grants received as a compensation for unearned revenue are recognized as income over the periods necessary to match them with the related unearned revenue to compensate.

2.14 Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company and the Group as lessor
Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company and the Group as lessee
Assets held under finance leases are recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

2.15 Provisions

Provisions are recognized when the Group companies has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.16 Business and geographical segments

A business segment means a constituent part of the business participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

Expenses of the Company's and the Group's structural units, which may be directly allocated to a specific segment, are allocated to this segment. Expenses of the structural units of the Company and the Group, which take part in more than one segment, are allocated pro rata to the established distribution of expenses.

A geographical segment means a constituent part of the business participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

2.17 Revenues and expenses recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services. Revenue is shown net of value-added tax, estimated rebates, discounts and other similar allowances.

The Company and the Group recognizes revenue on an accrual basis. Revenues are recognized in the financial statements irrespective of cash inflows, i.e. when they are earned.

Revenue from the electricity-related services and sales is recognized when substantially all risks and rewards related to the object of sale have been passed to the buyer.

Interest income is recognized on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable. Received interest is recorded in the cash flow statement as cash flows from investing activities.

Dividend income is recognized when the right to receive payment is established. Received dividends are recorded in the cash flow statement as cash flows from investing activities.

Expenses are recognized in profit or loss when incurred.

Income and expenses related to the IT services provided by the Company and the Group, rent of summer houses owned by the Company and the Group and sale and lease of the non-current assets are accounted under other activities.

2.18 Finance costs

All finance costs are recognized in profit or loss when incurred.

2.19 Income tax

Income tax expense represents the sum of the tax currently payable and deferred income tax.

Current income tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's and the Group's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. In 2006 the income tax rate in Lithuania was 15%. From 1 January 2006 the Provisional Social Tax Law has come into effect in the Republic of Lithuania. A 4% social tax rate is effective for 2006 and a 3% rate will be effective for 2007. The basis for social tax calculation is the same as for income tax.

(Continued)

2.19 Income tax (continued)

Deferred income tax

Deferred income tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred income tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or asset realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred income tax for the period

Current and deferred income tax is charged or credited to profit or loss, except when they relate to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

2.20 Earnings per share

The weighted average number of shares, based on which earnings per share is calculated, for the year ended 31 December 2006 and 2005 were 689,515,435. As of 31 December 2006 and 2005 and for the years ended 31 December 2006 and 2005 the Company had no dilutive options outstanding.

2.21 Contingencies

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

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

2.22 Subsequent events

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

2.23 Related parties

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

2.24 Reclassification

Some amounts in the financial statements of the year 2005 were reclassified to conform to the presentation of the year 2006 as described in Note 31.

3. Critical judgments and uncertainty

3.1 Critical judgments in applying the entity's accounting policies

Depreciation rates of Property, plant and equipment
In making its judgment for the remaining useful life of Property, plant and equipment, management considers the conclusions from the employees responsible for technical maintenance of assets.

In the year 2004 the Company and the Group has changed the estimated useful lives of Property, plant and equipment. The effect of a change in an accounting estimate was recognized prospectively in the period of change, as it is required by *IAS 8 Accounting policies, Change in Accounting Estimates and Errors.*

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of Property, plant and equipment
The Company and the Group makes an assessment, at least annually, whether there are any indications that Property, plant and equipment have suffered any impairment. If that is the case, the Company and the Group makes an impairment test in accordance with the accounting policy set out in Note 2. The recoverable amount of cash-generating units is determined based on value-in-use calculations. As of 31 December 2006 and 2005 there were no indications that property, plant and equipment might be impaired.

4. *Intangible assets*

As of 31 December 2006 and 2005 the Group's non-current intangible assets consisted of the following:

Group	Patents and licenses	Software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2004	**850**	**10,855**	**78**	**11,783**
- additions	549	2,986	154	3,689
- reclassifications and transfers from property, plant and equipment +/(-)	6	463	(186)	283
As of 31 December 2005	**1,405**	**14,304**	**46**	**15,755**
- additions	951	2,488	-	3,439
- disposals (-)	(27)	(94)	(3)	(124)
As of 31 December 2006	**2,329**	**16,698**	**43**	**19,070**
Amortization				
As of 31 December 2004	**335**	**7,579**	**7**	**7,921**
- amortization	183	1,593	-	1,776
As of 31 December 2005	**518**	**9,172**	**7**	**9,697**
- amortization	560	2,105	7	2,672
- disposals (-)	(27)	(94)	-	(121)
As of 31 December 2006	**1,051**	**11,183**	**14**	**12,248**
Carrying amount				
As of 31 December 2005	**887**	**5,132**	**39**	**6,058**
As of 31 December 2006	**1,278**	**5,515**	**29**	**6,822**

As of 31 December 2006 and 2005 the Company's non-current intangible assets consisted of the following:

Company	Patents and licenses	Software	Other intangible assets	Total
Acquisition cost				
As of 31 December 2004	**809**	**10,813**	**78**	**11,700**
- additions	533	2,974	115	3,622
- reclassifications and transfers from property, plant and equipment +/(-)	6	463	(186)	283
As of 31 December 2005	**1,348**	**14,250**	**7**	**15,605**
- additions	943	2,469	-	3,412
- disposals (-)	(14)	(94)	-	(108)
As of 31 December 2006	**2,277**	**16,625**	**7**	**18,909**
Amortization				
As of 31 December 2004	**322**	**7,567**	**7**	**7,896**
- amortization	168	1,573	-	1,741
As of 31 December 2005	**490**	**9,140**	**7**	**9,637**
- amortization	543	2,086	-	2,629
- disposals (-)	(14)	(94)	-	(108)
As of 31 December 2006	**1,019**	**11,132**	**7**	**12,158**
Carrying amount				
As of 31 December 2005	**858**	**5,110**	**-**	**5,968**
As of 31 December 2006	**1,258**	**5,493**	**-**	**6,751**

As of 31 December 2006 and 2005 the acquisition cost of fully amortized non-current intangible assets that are still in use consisted of the following:

Group of non-current intangible assets	Group 2006	Company 2006	Group 2005	Company 2005
Patents and licenses	296	296	537	537
Software	7,294	7,294	6,308	6,308
Other intangible assets	7	7	7	7
Total	**7,597**	**7,597**	**6,852**	**6,852**

5. *Property, plant and equipment*

As of 31 December 2006 and 2005 the Group's property, plant and equipment consisted of the following:

Group	Land	Buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Construction in progress	Other PPE	Total
Acquisition (deemed) cost								
As of 31 December 2004	**40**	**2,274,805**	**245,028**	**16,158**	**90,575**	**109,385**	**17,373**	**2,753,364**
- additions	-	1,043	2,213	4,340	10,267	94,958	21,980	134,801
- disposals (-)	(40)	(14,676)	(3,102)	(260)	(272)	(175)	(321)	(18,846)
- reclassifications and transfers to non-current intangible assets +/(-)	-	100,984	36,224	-	11,295	(128,104)	(20,682)	(283)
As of 31 December 2005	-	**2,362,156**	**280,363**	**20,238**	**111,865**	**76,064**	**18,350**	**2,869,036**
- additions	-	3,411	3,069	3,202	6,131	92,680	41,121	149,614
- disposals (-)	-	(5,286)	(3,043)	(691)	(339)	-	(36)	(9,395)
- reclassifications +/(-)	-	72,479	17,043	-	5,958	(73,146)	(22,334)	-
As of 31 December 2006	-	**2,432,760**	**297,432**	**22,749**	**123,615**	**95,598**	**37,101**	**3,009,255**
Depreciation								
As of 31 December 2004	-	**113,950**	**18,172**	**4,880**	**20,173**	-	**81**	**157,256**
- depreciation	-	114,085	20,945	3,949	16,780	-	100	155,859
- disposals (-)	-	(6,385)	(167)	(251)	(118)	-		(6,921)
- reclassifications +/(-)	-	(9)	(6)	-	15	-	-	-
As of 31 December 2005	-	**221,641**	**38,944**	**8,578**	**36,850**	-	**181**	**306,194**
- depreciation	-	113,653	22,161	4,152	18,839	-	81	158,886
- disposals (-)	-	(2,840)	(1,664)	(569)	(305)	-	(3)	(5,381)
- reclassification +/(-)	-	(10)	15	-	-	-	(5)	-
As of 31 December 2006	-	**332,444**	**59,456**	**12,161**	**55,384**	-	**254**	**459,699**
Impairment								
As of 31 December 2004	**2**	**11**	-	-	-	-	-	**13**
- impairment	-	-	-	58	-	-	34	92
- disposals (-)	(2)	-	-	-	-	-	-	(2)
As of 31 December 2005	-	**11**	-	**58**	-	-	**34**	**103**
- impairment	-	1,207	-	-	-	-	-	1,207
- reversals (-)	-	-	-	(58)	-	-	(34)	(92)
As of 31 December 2006	-	**1,218**	-	-	-	-	-	**1,218**
Carrying amount								
As of 31 December 2005	-	**2,140,504**	**241,419**	**11,602**	**75,015**	**76,064**	**18,135**	**2,562,739**
As of 31 December 2006	-	**2,099,098**	**237,976**	**10,588**	**68,231**	**95,598**	**36,847**	**2,548,338**

(Continued)

5. *Property, plant and equipment (continued)*

As of 31 December 2006 and 2005 the Company's property, plant and equipment consisted of the following:

Company	Buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Construction in progress	Other PPE	Total
Acquisition (deemed) cost							
As of 31 December 2004	**2,256,763**	**237,169**	**14,739**	**90,380**	**109,972**	**16,608**	**2,725,631**
- additions	150	1,414	3,687	10,195	95,407	21,980	132,833
- disposals (-)	(14,436)	(3,065)	(154)	(273)	(176)	(315)	(18,419)
- reclassifications and transfers to non-current intangible assets +/(-)	101,368	36,222	-	11,295	(128,485)	(20,683)	(283)
As of 31 December 2005	**2,343,845**	**271,740**	**18,272**	**111,597**	**76,718**	**17,590**	**2,839,762**
- additions	2,828	1,929	2,766	6,100	92,840	41,013	147,476
- disposals (-)	(5,286)	(2,829)	(556)	(339)	-	(36)	(9,046)
- reclassifications +/(-)	72,916	16,869	-	5,958	(73,410)	(22,333)	-
As of 31 December 2006	**2,414,303**	**287,709**	**20,482**	**123,316**	**96,148**	**36,234**	**2,978,192**
Depreciation							
As of 31 December 2004	**113,536**	**17,465**	**4,657**	**20,135**	-	**39**	**155,832**
- depreciation	113,675	19,916	3,630	16,718	-	37	153,976
- disposals (-)	(6,385)	(134)	(148)	(117)	-	-	(6,784)
- reclassifications +/(-)	(10)	(5)	-	15	-	-	-
As of 31 December 2005	**220,816**	**37,242**	**8,139**	**36,751**	-	**76**	**303,024**
- depreciation	113,263	21,137	3,788	18,761	-	36	156,985
- disposals (-)	(2,839)	(1,465)	(448)	(304)	-	(1)	(5,057)
- reclassification +/(-)	(11)	16	-	-	-	(5)	-
As of 31 December 2006	**331,229**	**56,930**	**11,479**	**55,208**	-	**106**	**454,952**
Impairment							
As of 31 December 2004	-	-	-	-	-	-	-
- impairment	-	-	58	-	-	34	92
As of 31 December 2005	-	-	**58**	-	-	**34**	**92**
- impairment	1,207	-	-	-	-	-	1,207
- reversals (-)	-	-	(58)	-	-	(34)	(92)
As of 31 December 2006	**1,207**	-	-	-	-	-	**1,207**
Carrying amount							
As of 31 December 2005	**2,123,029**	**234,498**	**10,075**	**74,846**	**76,718**	**17,480**	**2,536,646**
As of 31 December 2006	**2,081,867**	**230,779**	**9,003**	**68,108**	**96,148**	**36,128**	**2,522,033**

In 2006 the Company completed the following major investment projects:

Project	Value
Reconstruction of the 1st of Dubingiai conference and seminar centre	7,162
Cable installation of 110 kV OL Taika1 - Taika2	7,054
Reconstruction of 110/kV Vilkaviškis SS	6,907
Rehabilitation of transmission line Jurbarkas-Šakiai-Kybartai and reconstruction of communication lines	4,671
Reconstruction of 110/10 kV Kino studija SS	4,290
Reconstruction of 110/10 kV Amaliai SS	4,189
Installation of 10 kV static shunt reactors in 330/110/10 kV Neries SS	4,161
Rehabilitation of transmission line Alytus-Gardinas and reconstruction of communication lines	3,968
Reconstruction of administration building in Utena Transmission Division	3,844

As of 31 December 2006 and 2005 the carrying amount of the Group's property, plant and equipment, acquired under finance leases, consisted of the following:

Group of Property, plant and equipment	2006	2005
Machinery and equipment	1,334	1,057
Vehicles	130	159
Total	**1,464**	**1,216**

(Continued)

5. Property, plant and equipment (continued)

As of 31 December 2006 and 2005 the acquisition cost of fully depreciated property, plant and equipment that are still in use were consisted of the following:

Group of Property, plant and equipment	Group 2006	Company 2006	Group 2005	Company 2005
Buildings and structures	1,530	1,530	387	387
Machinery and equipment	2,159	2,042	1,514	1,514
Vehicles	6,562	6,560	3,524	3,524
Other equipment, tools and devices	12,412	12,412	10,117	10,117
Total	**22,663**	**22,544**	**15,542**	**15,542**

The Group has significant contractual capital commitments to acquire property, plant and equipment, which will have to be met in subsequent years. The Company has started the implementation of Kaunas HPP rehabilitation investment project, amounting to LTL'000 45,263 and EUR'000 23,109 (total amount LTL'000 125,054) of which MLTL 30 will be financed from European Union structural funds, national budget and other state monetary funds. The contractor of the project – Alstom Power Sweden AS. The project is scheduled to be finished in 2008.

6. Investments

As of 31 December 2006 and 2005 the Company had direct control over two subsidiaries: Energetikos Pajėgos UAB (acquisition cost of LTL'000 414) and Kauno Energetikos Remontas UAB (acquisition cost of LTL'000 31,341). The Company owns 100% of shares in these companies. The remaining three subsidiaries (Note 1) the Company controls indirectly, i.e. through Kauno Energetikos Remontas UAB.

The Company had the following associates: Nordic Energy Link AS (acquisition cost of LTL'000 18,978); Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija) (acquisition cost of LTL'000 2,740), Geoterma UAB (acquisition cost of LTL'000 4,373).

Baltijas Energosistemu Dispečeru Centrs BO SIA is a company under liquidation. As of 28 February 2006 under the protocol of DC Baltija Council a liquidation plan of this company and subsequent discontinuance of its operations was confirmed. A reason for the company's liquidation – parallel operating Lithuanian, Latvian and Estonian transmission systems decided to stop delegation of dispatch control functions in DC Baltija, in order to start performing such operations independently or by other means.

As of 31 December 2006 and 2005 investments in associates consisted of the following:

Company 2006	Acquisition cost	Ownership of shares (per cent)	Impairment	Carrying amount
Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija)*	2,740	33.33	(2,171)	569
Geoterma UAB	4,373	23.44	(1,905)	2,468
Nordic Energy Link AS	18,978	25	(274)	18,704
Total	**26,091**		**(4,350)**	**21,741**

* Investment in associate DC Baltija is accounted in the balance sheet under other current assets.

Company 2005	Acquisition cost	Ownership of shares (per cent)	Impairment	Carrying amount
Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija)	2,740	33.33	(1,085)	1,655
Geoterma UAB	4,373	23.44	(781)	3,592
Nordic Energy Link AS	18,978	25	(108)	18,870
Total	**26,091**		**(1,974)**	**24,117**

(Continued)

6. *Investments (continued)*

Financial position as of 31 December 2006 and operating results for the year ended 31 December 2006 of the associates consisted of the following:

Company 2006	**Assets**	**Liabilities**	**Revenue**	**Net loss**
Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija)	2,977	26	4,459	(2,011)
Geoterma UAB	56,184	45,655	5,858	(4,789)
Nordic Energy Link AS	319,442	244,625	2,713	(661)

Financial position as of 31 December 2005 and operating results for the year ended 31 December 2005 of the associates consisted of the following:

Company 2005	**Assets**	**Liabilities**	**Revenue**	**Net loss**
Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija)	5,499	414	5,716	(183)
Geoterma UAB	62,958	47,639	10,798	(2,479)
Nordic Energy Link AS	79,014	3,536	-	(433)

For the years ended 31 December 2006 and 2005, the movement of investments in associates consisted of the following:

	Group 2006	**Company 2006**	**Group 2005**	**Company 2005**
Carrying amount as of 1 January	**24,117**	**24,117**	**5,887**	**5,887**
Acquisition of associates	-	-	18,978	18,978
Impairment of investment in associates	(416)	(2,376)	-	(748)
Share of loss of associates	(1,960)	-	(748)	-
Carrying amount as of 31 December	**21,741**	**21,741**	**24,117**	**24,117**

7. *Other non-current receivables*

As of 31 December the Group's and the Company's other non-current receivables consisted of the following:

	Group 2006	**Company 2006**	**Group 2005**	**Company 2005**
Receivables from VST AB*	7,810	7,810	8,675	8,675
Other receivables	955	955	1,230	1,230
Total	**8,765**	**8,765**	**9,905**	**9,905**
Less: current receivables (note 11)	(973)	(973)	(973)	(973)
Carrying amount	**7,792**	**7,792**	**8,932**	**8,932**

* In 2005 Lietuvos Energija AB decided to dispose 10 kV transmission equipment to VST AB, i.e.10 kV switchgears of 330 kV transformer substations in various transmission divisions. As of 31 December 2006 receivable under such transaction, amounting to LTL'000 7,810 (as of 31 December 2005 – LTL'000 8,675), is accounted under other non-current receivables. The amount will be repaid in equal installments up to the year 2015. Its current portion, amounting to LTL'000 864, and accrued interest of LTL'000 32 are accounted under other current receivables (see Note 11). The interest rate of this transaction approximates the market interest rate.

The fair value of the Group's and the Company's other non-current receivables approximates their carrying amount.

8. *Other financial assets*

As of 31 December 2006 and 2005 other financial assets of the Company and Group include contribution in kind to Energetikų Mokymo Centras VŠĮ made by the Company with the carrying amount of LTL'000 295. Lietuvos Energija AB is the only founder of Energetikų Mokymo Centras VŠĮ. As the Company cannot control the economic benefits of this institution (Energetikų Mokymo Centras VŠĮ is a non-profit seeking organization), the financial statements of this institution are not consolidated in the Group's financial statements.

At 27 October 2006 bank Hansabankas AB issued a performance guarantee to the beneficiary - the administration of Vilnius Municipality, in the amount of LTL'000 16, and committed to pay to the municipality the amount up to LTL'000 16, if the Company fails to perform or performs unduly its obligations under the Agreement for provision of the services to remote back-up data copies. This performance guarantee is valid till 2 December 2009. The Company has discounted the amount of the guarantee by applying the average market interest rate (3.25%).

9. *Inventories*

As of 31 December the Company's and the Group's inventories consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Materials and spare parts, production in progress and finished goods at acquisition (production) cost	12,298	6,011	13,997	5,878
Goods for resale at acquisition cost	782	733	245	191
Less: write-down to net realizable value	(378)	(351)	(192)	(189)
Carrying amount	**12,702**	**6,393**	**14,050**	**5,880**

While preparing the financial statements, the Company and the Group estimated net realizable value allowance for inventories.

10. *Trade receivables*

As of 31 December the Company's and the Group's trade receivables consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Receivables from electricity market players	78,163	78,163	71,879	71,879
Receivables from other Lithuanian companies	25,418	17,427	17,889	11,949
Receivables for exported electricity	2,098	2,098	25,164	25,164
Receivables for electricity transit	49	49	2,445	2,445
Total	**105,728**	**97,737**	**117,377**	**111,437**
Less: allowance for doubtful receivables	(9,954)	(9,612)	(7,943)	(7,558)
Carrying amount	**95,774**	**88,125**	**109,434**	**103,879**

For the years ended as of 31 December 2006 and 2005 the movement of provisions for doubtful receivables consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Carrying amount as of 1 January	**7,943**	**7,558**	**2,548**	**1,960**
Provisions for doubtful receivables	4,369	4,305	5,688	5,677
Reversal of provisions for doubtful receivables	(2,358)	(2,251)	(293)	(79)
Carrying amount as of 31 December	**9,954**	**9,612**	**7,943**	**7,558**

11. Other current receivables

As of 31 December the Group's and the Company's other current receivables consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
VAT receivable	2,983	2,970	3,592	3,303
Receivables for IT and telecommunication services	2,551	2,551	1,757	1,757
Receivables for connection of wind power stations	958	958	-	-
Current portion of non-current receivables (note 7)	973	973	973	973
Deferred VAT receivable	836	836	4,330	4,330
Other receivables	787	702	853	658
Carrying amount	**9,088**	**8,990**	**11,505**	**11,021**

12. Cash and cash equivalents

As of 31 December the Group's and the Company's cash and cash equivalents consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Cash at banks and on hand	3,839	908	4,238	2,949
Term deposit at bank Snoras AB (LTL), annual interest rate - 3.425%, maturity – 4 March 2007	500	-	-	-
Overnight deposit at bank Hansabankas AB (LTL), annual interest rate - 0.45%	449	449	-	-
Term deposit at bank Snoras AB (LTL), annual interest rate – 3.2%, maturity – 4 February 2006	-	-	1,500	-
Net book value	**4,788**	**1,357**	**5,738**	**2,949**

13. Share capital

As of 31 December 2006 and 2005 the share capital of the Company amounted to LTL 689,515,435 and it was divided into ordinary 689,515,435 registered shares with the par value of one Litas each. All shares were fully paid. During 2006 the highest share price at the Stock Exchange session was LTL 2.39 per share, lowest – LTL 1.76 per share. The number of shareholders as of 31 December 2006 was 4,960.

As of 31 December 2006 and 2005 the Company's shareholders consisted of the following:

Shareholders	2006 Shares (LTL)	2006 %	2005 Shares (LTL)	2005 %
Lithuanian state represented by the Ministry of Economy of the Republic of Lithuania	665,891,508	96.57	666,237,920	96.62
Other	23,623,927	3.43	23,277,515	3.38
Total	**689,515,435**	**100.00**	**689,515,435**	**100.00**

14. Legal reserve

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual contributions of minimum 5% of the net distributable profit are required until the legal reserve reaches 10% of the registered share capital. The appropriation is restricted to reduction of the accumulated deficit.

At the end of 2006 two companies of the Group, Lietuvos Energija AB and Energetikos Pajėgos UAB had fully formed a legal reserve, which accounted for 10% of the share capital and amounted to LTL'000 68,952 and LTL'000 43 respectively.

15. Other reserves

As of 31 December the Group's and the Company's other reserves consisted of the following:

Group	Capital reduction reserve (related to transfer of heavy fuel storage reservoirs)	Reserve for property, plant and equipment acquisitions	Revaluation reserve	Reserve for management and employee bonuses and sponsorship	Other reserve related with fixed assets	Total
Balance						
As of 31 December 2004	**(63,777)**	**97,554**	**27**	**2,750**	**-**	**36,554**
Transfers to reserve	-	65,190	-	3,750	-	68,940
Reserves used	-	-	(3)	(2,988)	-	(2,991)
Balance						
As of 31 December 2005	**(63,777)**	**162,744**	**24**	**3,512**	**-**	**102,503**
Transfers to reserve	-	-	-	2,100	1,293,569	1,295,669
Reserves used	-	-	(24)	(3,588)	-	(3,612)
Balance						
As of 31 December 2006	**(63,777)**	**162,744**	**-**	**2,024**	**1,293,569**	**1,394,560**

Company	Capital reduction reserve (related to transfer of heavy fuel storage reservoirs)	Reserve for property, plant and equipment acquisitions	Revaluation reserve	Reserve for management and employee bonuses and sponsorship	Other reserve related with fixed assets	Total
Balance						
As of 31 December 2004	**(63,777)**	**95,634**	**27**	**2,750**	**-**	**34,634**
Transfers to reserve	-	65,003	-	3,500	-	68,503
Reserves used	-	-	(3)	(2,750)	-	(2,753)
Balance						
As of 31 December 2005	**(63,777)**	**160,637**	**24**	**3,500**	**-**	**100,384**
Transfers to reserve	-	-	-	2,000	1,293,569	1,295,569
Reserves used	-	-	(24)	(3,500)	-	(3,524)
Balance						
As of 31 December 2006	**(63,777)**	**160,637**	**-**	**2,000**	**1,293,569**	**1,392,429**

The reserve for reducing the share capital due to the transfer of heavy fuel storage reservoirs is the negative reserve of reducing the share capital that resulted from the transfer of fuel oil storage reservoirs to Vilniaus Mazuto Saugykla VĮ (although expected, the share capital has not been reduced by this amount until now).

After the first time adoption of IFRS at 1 January 2004 the retained earnings of the Company increased by LTL'000 1,369,457. On purpose to restrict the distribution of such profit, during the shareholders' meeting held at 20 April 2006 it was agreed to form a reserve related to fixed assets.

16. Borrowings

As of 31 December the Group's and the Company's borrowings are repayable as follows:

	Group 2006	Company 2006	Group 2005	Company 2005
Within one year	20,581	20,581	23,079	23,079
In the second year	5,085	5,085	20,581	20,581
In the third year	12,381	12,381	14,793	14,793
In the fourth year	15,833	15,833	23,647	23,647
In the fifth year	15,833	15,833	19,286	19,286
After five years	21,308	21,308	23,330	23,330
Total	**91,021**	**91,021**	**124,716**	**124,716**

(Continued)

16. Borrowings (continued)

As of 31 December the Group's and the Company's long-term borrowings consisted of the following:

Credit institution	Contractual amount (EUR'000)	Carrying amount 2006 (EUR'000)	Maturity	Current portion (as of 31 December 2006)	Carrying amount 2006	Carrying amount 2005
Zurcher Kantonalbank	8,013	4,100	2013	2,022	14,155	16,177
SEB Vilniaus Bankas AB	15,000	3,887	2009	-	13,421	12,771
Bayerishe Hypo-und Wereinsbank AG Vilniaus Branch	15,000	13,000	2012	-	44,886	51,792
Nordea Bank Finland Plc Lithuanian Branch	15,000	5,375	2007	18,559	18,559	30,644
Bank Hansabankas AB	11,585	-	2009	-	-	11,266
Total long-term borrowings:	**64,598**	**26,362**		**20,581**	**91,021**	**122,650**

As of 31 December the Group's and the Company's short-term borrowings consisted of the following:

Credit institution	Contractual amount	Currency	Carrying amount 2006	Carrying amount 2005
Bank Hansabankas AB (overdraft)	3,185	EUR'000	-	1,351
Bank Hansabankas AB (overdraft)	9,000	LTL'000	-	715
Total short-term borrowings:			**-**	**2,066**

The fair value of the Company's borrowings approximates their carrying amount.

As of 31 December 2006 the Group and the Company had borrowings, amounting to LTL'000 63,399, with a floating interest rate (weighted average - 3.4%) and borrowings, amounting to LTL'000 27,622, with a fixed interest rate (weighted average - 4.3%).

As of 31 December 2005 the Group and the Company had borrowings, amounting to LTL'000 90,188, with a floating interest rate (weighted average - 2.8%) and borrowings, amounting to LTL'000 34,528, with a fixed interest rate (weighted average - 4.3%).

The Group and the Company does not have any borrowings secured by the State guarantee or their own assets.

The Group and the Company is subject to meeting certain covenants under credit agreements:

- Under 24 January 2003 agreement with Zurcher Kantonal bank (contractual amount – EUR'000 8,013) the Company is prohibited to pledge any assets or revenues to any third parties;

- Under 17 May 2002 agreement with bank Hansabankas AB (contractual amounts – LTL'000 9,000, EUR'000 3,185 and EUR'000 11,585) the Company obligated to carry monthly turnover of over MLTL 15 through the Company's accounts at this bank, not to close accounts without prior notice, shall not establish joint ventures, shall not assume liabilities under credit, loan or guarantee agreements, lease, financial lease or factoring agreements concluded with credit institutions or other entities, shall not assume liabilities with regard to third parties under guarantee, surety, pledge agreements if the liabilities under any of such agreements would exceed MLTL 10. Without written approval shall not: dispose non-current assets (exceeding MLTL 10), rent part of business, pledge current and future funds in bank, and take decisions related to reorganization.

(Continued)

16. Borrowings (continued)

- Under 28 August 2002 agreement with SEB Vilniaus Bankas AB (contractual amounts – EUR'000 15,000 and LTL'000 10,358) the Company obligated to carry monthly turnover of over MLTL 15 through the Company's accounts at this bank, to comply with credit coverage ratio of above 1.1 and liabilities to assets ratio of less than 40%. Without prior bank approval the Company shall not: take decisions on reorganization and closing the accounts at this bank, transfer rights and obligations under this agreement to third parties, allow subsidiaries to borrow from other credit institutions (over MLTL 1), secure present and future liabilities under credit agreements by pledging assets or guarantees of third parties.

- Under 3 March 2002 agreement with Nordea Bank Finland Plc Lithuania branch (contractual amount – EUR'000 15,000) the Company obligated to carry monthly turnover of over MLTL 10 through the Company's accounts at this bank, to comply with debt service ratio of above 1.05; financial liabilities and EBITDA ratio of less than 5. Without prior written bank approval the Company shall not: pledge assets for liabilities under other loan agreements, rent and dispose assets (exceeding MLTL 60), grant loans and guarantees (over MLTL 20), reorganize the Company.

- Under 22 May 2002 agreement with Bayerishe Hypo-und Wereinsbank AG Vilnius branch (contractual amount – EUR'000 15,000) the Company obligated to carry monthly turnover of over MLTL 10 through the Company's accounts at this bank. Without prior written bank approval the Company shall not: guarantee the obligations to its future creditors or expand guarantee implements to present creditors. In case of substantial breach of the agreement, the Company is obliged without written agreement shall not declare and pay dividends, perform the distribution of share capital, and purchase shares.

In 2006 and 2005 the Group and the Company complied with all covenants under the credit agreements.

17. Obligations under finance leases

As of 31 December the Group's minimum lease payments consisted of the following:

Group	**2006**		**2005**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Amounts payable under finance leases:				
Within one year	275	263	478	466
In the second to fifth years inclusive	120	119	110	107
Minimum lease payments	**395**	**382**	**588**	**573**
Less: future finance charges	(13)	-	(15)	-
Present value of minimum lease payments	**382**	**382**	**573**	**573**

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets (note 5).

The fair value of the Group's obligations under finance leases approximates their carrying amount.

18. Issued bonds

In September 2006 the Company redeemed the bonds issued in September 2005 with maturity of 367 days.

In September 2006 the company issued bonds with a three-year maturity. The nominal value of the emission is EUR'000 7,500 (LTL'000 25,896). Annual interest rate – 4.06%. The maturity – 29 September 2009.

The fair value of the issued bonds as of 31 December 2006 was EUR'000 7,544 (LTL'000 26,048).

19. Provisions

As of 31 December 2005 the Company accounted for the liabilities of the Company's branch Kruonis PSP related to liquidation of Kruonis PSP construction facilities and recultivation works. It was planned to use the amount of the provisions in 2006 - 2008, however, due to the changed scope in recultivation project, the unused amount (LTL'000 1,521) of provisions was reversed by crediting expenses in the profit or loss in 2006.

For the years ended as of 31 December 2006 and 2005 the movement of provisions consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Carrying amount as of 1 January	**2,209**	**2,209**	**3,606**	**3,606**
Used provisions	(688)	(688)	(1,397)	(1,397)
Reversed provisions	(1,521)	(1,521)	-	-
Carrying amount as of 31 December	**-**	**-**	**2,209**	**2,209**

20. Grants

For the years ended as of 31 December 2006 and 2005 the movement of grants consisted of the following:

	Grants related to assets		Grants related to income	
Gruop	Grants related to connection fee	Grants related to financing of assets acquisition	Grants related to compensation of expenses	**Total**
Carrying amount As of 31 December 2004	**-**	**16,054**	**-**	**16,054**
- grants received	1,395	1,416	85	2,896
- grants used	(12)	(2,211)	(85)	(2,308)
Carrying amount As of 31 December 2005	**1,383**	**15,259**	**-**	**16,642**
- grants received	2,698	5,999	-	8,697
- grants used	(156)	(843)	-	(999)
Carrying amount As of 31 December 2006	**3,925**	**20,415**	**-**	**24,340**

	Grants related to assets		Grants related to income	
Company	Grants related to connection fee	Grants related to financing of assets acquisition	Grants related to compensation of expenses	**Total**
Carrying amount As of 31 December 2004	**-**	**15,933**	**-**	**15,933**
- grants received	1,395	1,416	85	2,896
- grants used	(12)	(2,188)	(85)	(2,285)
Carrying amount As of 31 December 2005	**1,383**	**15,161**	**-**	**16,544**
- grants received	2,698	5,999	-	8,697
- grants used	(156)	(820)	-	(976)
Carrying amount As of 31 December 2005	**3,925**	**20,340**	**-**	**24,265**

The Group has received advance payments, which, upon meeting the contractual obligations by the Group, will be recognized as grants. These advance payments are accounted under trade and other payables (note 21). As of 31 December 2006 these advances received amounted to LTL'000 14,366 (as of 31 December 2005 – LTL'000 6,912).

21. Trade and other payables

As of 31 December the Group's and the Company's trade and other payables consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Trade payables	140,551	135,258	150,065	145,436
Advances received	18,279	16,057	12,265	10,110
Deferred VAT payable	7,763	7,763	7,021	7,021
Payroll related liabilities	2,595	1,422	1,975	1,084
Vacation reserve	2,537	2,512	2,110	2,110
Property tax payable	2,087	2,087	2,076	2,076
Dividends payable	553	553	537	537
Other payables and current liabilities	766	681	591	438
Carrying amount	**175,131**	**166,333**	**176,640**	**168,812**

22. Income tax expense

For the year ended as of 31 December the Group's and the Company's income tax expense consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Components of the income tax expense				
Current income tax (including social tax)	19,345	18,924	16,621	16,366
Deferred income tax	(15,589)	(15,536)	(9,769)	(9,698)
Income tax expense	**3,756**	**3,388**	**6,852**	**6,668**

(Continued)

22. Income tax expense (continued)

As of 31 December the Group's and the Company's deferred income tax consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Deferred income tax assets:				
Impairment of Property, plant and equipment (deemed cost)	(198,167)	(198,167)	(207,688)	(207,688)
Allowances for doubtful receivables (Baltic Shem and Liberty)	(8,565)	(8,565)	(13,496)	(13,496)
Allowances for doubtful receivables (Ekranas AB)	(1,442)	(1,442)	-	-
Vacation reserve	(389)	(389)	(337)	(337)
Impairment of financial assets (will be recognized for tax purposes at the moment of disposal)	(326)	(326)	(133)	(133)
Recognition for tax purposes of capitalized finance costs previously written-off	(237)	(237)	-	-
Allowances for inventories to net realizable value	(53)	(53)	-	-
Provisions for implementation of Kruonis PSP recultivation project	-	-	(409)	(409)
Other (derivative financial instruments)	-	-	(13)	(13)
Total deferred income tax assets	**(209,179)**	**(209,179)**	**(222,076)**	**(222,076)**
Deferred income tax liabilities				
Increase in value of Property, plant and equipment (deemed cost)	399,582	399,440	426,685	426,520
Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress)	28,003	27,733	30,852	30,552
Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting	1,286	1,286	-	-
Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until 31 December 2006	5	5	-	-
Other (derivative financial instruments)	11	11	29	29
Total deferred income tax liabilities	**428,887**	**428,475**	**457,566**	**457,101**
Less: valuation allowance	326	326	133	133
Deferred income tax liabilities, net	**220,034**	**219,622**	**235,623**	**235,158**

Deferred income tax assets and liabilities were accounted by using 15% tax rate, excluding deferred income tax assets and liabilities which will be recovered or settled in 2006 and 2007. According to the Law on Provisional Social Tax of the Republic of Lithuania, the Group's companies will pay an additional social tax of 4% in 2006, and of 3% in 2007, calculated on taxable profit, therefore while assessing the deferred income tax assets and liabilities, the increase of deferred income tax assets and liabilities was evaluated for 2006 and 2007.

(Continued)

22. Income tax expense (continued)

As of 31 December the Group's and the Company's periods of deferred income tax assets recovery and deferred tax liabilities settlement consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Deferred income tax assets:				
Deferred income tax assets to be recovered after more than 12 months	194,762	194,762	206,704	206,704
Deferred income tax assets to be recovered within 12 months	14,091	14,091	15,239	15,239
Total deferred income tax assets	**208,853**	**208,853**	**221,943**	**221,943**
Deferred income tax liabilities:				
Deferred income tax liabilities to be settled after more than 12 months	401,677	401,265	426,947	426,482
Deferred income tax liabilities to be settled within 12 months	27,210	27,210	30,619	30,619
Total deferred income tax liabilities	**428,887**	**428,475**	**457,566**	**457,101**
Deferred income tax liabilities, net	**220,034**	**219,622**	**235,623**	**235,158**

For the year ended as of 31 December 2006 the Group's changes of temporary differences consisted of the following:

	As of 31 December 2005	Charged (credited) to the income statement	As of 31 December 2006
Impairment of Property, plant and equipment (deemed cost)	(1,359,923)	49,003	(1,310,920)
Allowances for doubtful receivables (Baltic Shem and Liberty)	(77,859)	25,950	(51,909)
Allowances for doubtful receivables (Ekranas AB)	-	(9,612)	(9,612)
Vacation reserve	(2,110)	(402)	(2,512)
Impairment of financial assets (will be recognized for tax purposes at the moment of disposal)	(888)	(1,290)	(2,178)
Recognition for tax purposes of capitalized finance costs previously written-off	-	(1,396)	(1,396)
Allowances for inventories to net realizable value	-	(350)	(350)
Provisions for implementation of Kruonis PSP recultivation project	(2,209)	2,209	-
Other (derivative financial instruments)	(89)	89	-
Increase in value of Property, plant and equipment (deemed cost)	2,779,186	(143,142)	2,636,044
Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress)	196,419	(12,113)	184,306
Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting	-	8,577	8,577
Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until 31 December 2006	25	-	25
Other (derivative financial instruments)	192	(129)	63
Total temporary differences	**1,532,744**	**(82,606)**	**1,450,138**
Deferred income tax by applying 15% tax rate, net	**229,912**	**(12,391)**	**217,521**
Increase in deferred income tax due to effect of social tax	5,578	(3,391)	2,187
Total deferred income tax, net	**235,490**	**(15,782)**	**219,708**
Less: valuation allowance	133	193	326
Deferred income tax liabilities, after assessment	**235,623**	**(15,589)**	**220,034**

(Continued)

22. *Income tax expense (continued)*

For the year ended as of 31 December 2006 the Company's changes of temporary differences consisted of the following:

	As of 31 December 2005	Charged (credited) to the income statement	As of 31 December 2006
Impairment of Property, plant and equipment (deemed cost)	(1,359,923)	49,003	(1,310,920)
Allowances for doubtful receivables (Baltic Shem and Liberty)	(77,859)	25,950	(51,909)
Allowances for doubtful receivables (Ekranas AB)	-	(9,612)	(9,612)
Vacation reserve	(2,110)	(402)	(2,512)
Impairment of financial assets (will be recognized for tax purposes at the moment of disposal)	(888)	(1,290)	(2,178)
Recognition for tax purposes of capitalized finance costs previously written-off	-	(1,396)	(1,396)
Allowances for inventories to net realizable value	-	(350)	(350)
Provisions for implementation of Kruonis PSP recultivation project	(2,209)	2,209	-
Other (derivative financial instruments)	(89)	89	-
Increase in value of Property, plant and equipment (deemed cost)	2,778,090	(142,993)	2,635,097
Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress)	194,416	(11,909)	182,507
Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting	-	8,577	8,577
Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until 31 December 2006	25	-	25
Other (derivative financial instruments)	192	(129)	63
Total temporary differences	**1,529,645**	**(82,253)**	**1,447,392**
Deferred income tax by applying 15% tax rate, net	**229,447**	**(12,338)**	**217,109**
Increase in deferred income tax due to effect of social tax	5,578	(3,391)	2,187
Total deferred income tax, net	**235,025**	**(15,729)**	**219,296**
Less: valuation allowance	133	193	326
Deferred income tax liabilities, after assessment	**235,158**	**(15,536)**	**219,622**

For the year ended as of 31 December the Group's and the Company's reconciliation of income tax expense to the accounting profit consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Profit before tax	22,461	21,749	16,832	16,800
Tax at the income tax rate of 19% (2005: 15%)	4,268	4,132	2,525	2,520
Tax effect of items that are not deductible or taxable in determining taxable profit	(512)	(744)	4,327	4,148
Income tax expense	**3,756**	**3,388**	**6,852**	**6,668**
Effective income tax rate (%)	**17**	**16**	**41**	**40**

23. *Business and geographical segments*

The Groups has separated five business segments (activities). As of 31 December 2006 and for the year then ended the information about these segments consisted of the following:

2006	Business segments					
	Electricity transmission	Electricity trade	Electricity generation	Electricity export	Design and repair services	Total
Income	**343,347**	**505,078**	**66,327**	**256,026**	**46,002**	**1,216,780**
Incl. internal turnover among Company segments	*3,665*	*25,271*	*66,327*	*136,609*	-	*231,872*
Income after elimination of internal turnover among Company segments	339,682	479,807	-	119,417	46,002	984,908
Incl. internal turnover among Group companies	-	-	-	-	*4,642*	*4,642*
Income after elimination of internal turnover among Group companies	**339,682**	**479,807**	**-**	**119,417**	**41,360**	**980,266**
Expenses	**325,365**	**519,530**	**64,605**	**228,388**	***44,871***	**1,182,759**
Incl. internal turnover among Company segments	*34,587*	*157,450*	*28,289*	*11,559*	-	*231,885*
Expenses after elimination of internal turnover among Company segments	290,778	362,080	36,316	216,829	44,871	950,874
Incl. internal turnover among Group companies	*2,226*	-	-	-	*2,397*	*4,623*
Expenses after elimination of internal turnover among Group companies	**288,552**	**362,080**	**36,316**	**216,829**	**42,474**	**946,251**
Break-down of significant items of expenses:						
Electricity purchase, purchase of capacity reserve, transmission, regulation and balancing expenses	102,894	514,601	28,289	227,912	-	873,696
Repair and maintenance expenses	27,009	35	5,421	35	1,717	34,217
Depreciation and amortization	134,667	507	15,859	8	1,970	153,011
Wages, salaries, social insurance and accrued vacation reserve	37,099	433	8,560	323	19,041	65,456
Taxes other than income tax	3,400	16	6,497	15	256	10,184
Communications and IT expenses	4,853	653	90	7	231	5,834
Utilities	1,157	2	123	3	202	1,487
Subcontractors	-	-	-	-	10,547	10,547
Production materials expenses	-	-	-	-	8,777	8,777
Research and development	2,042	290	85	-	-	2,417
Other	12,244	2,993	(319)	85	2,130	17,133
Profit (loss) from ordinary activities (before elimination of internal turnover)	**17,982**	**(14,452)**	**1,722**	**27,638**	**1,131**	**34,021**
Elimination of internal turnover						(6)
Profit (loss) from ordinary activities (after elimination of internal turnover)						**34,015**
Segment's assets	2,128,936	50,662	435,755	2,098	35,749	2,653,200
Unallocated assets	-	-	-	-	-	57,069
Segment's liabilities	14,689	57,198	1,914	10,479	10,241	94,521
Unallocated liabilities	-	-	-	-	-	443,617
Capital additions	141,360	-	5,960	-	2,294	149,614
Unallocated capital additions	-	-	-	-	-	3,439
Depreciation and amortization	134,667	507	15,859	8	1,970	153,011
Unallocated depreciation and amortization	-	-	-	-	-	8,547
Impairment losses recognized in profit or loss	2,726	2,831	(36)	-	92	5,613
Unallocated impairment losses recognized in profit or loss	-	-	-	-	-	416

(Continued)

23. Business and geographical segments (continued)

As of 31 December 2005 and for the year then ended the information about segments consisted of the following:

2005	Business segments					
	Electricity transmission	Electricity trade	Electricity generation	Electricity export	Design and repair services	Total
Income	**327,138**	**428,906**	**53,799**	**259,299**	**49,252**	**1,118,394**
Incl. internal turnover among Company segments	*3,806*	*14,347*	*53,799*	*67,157*	-	*139,109*
Income after elimination of internal turnover among Company segments	323,332	414,559	-	192,142	49,252	979,285
Incl. internal turnover among Group companies	-	-	-	-	*7,401*	*7,401*
Income after elimination of internal turnover among Group companies	**323,332**	**414,559**	**-**	**192,142**	**41,851**	**971,884**
Expenses	**337,958**	**437,179**	**56,584**	**215,809**	**48,140**	**1,095,670**
Incl. internal turnover among Company segments	*31,446*	*72,342*	*20,169*	*15,171*	-	*139,128*
Expenses after elimination of internal turnover among Company segments	306,512	364,837	36,415	200,638	48,140	956,542
Incl. internal turnover among Group companies	*3,435*	-	-	-	*3,337*	*6,772*
Expenses after elimination of internal turnover among Group companies	***303,077***	***364,837***	***36,415***	***200,638***	***44,803***	***949,770***
Break-down of significant items of expenses:						
Electricity purchase, purchase of capacity reserve, transmission, regulation and balancing expenses	115,712	431,047	20,169	214,826	-	781,754
Repair and maintenance expenses	35,488	53	5,285	46	1,760	42,632
Depreciation and amortization	132,443	507	15,564	17	1,912	150,443
Wages, salaries, social insurance and accrued vacation reserve	32,523	394	7,834	351	16,098	57,200
Taxes other than income tax	4,236	803	6,240	495	282	12,056
Communications and IT expenses	4,336	743	96	9	279	5,463
Utilities	1,127	2	88	2	39	1,258
Subcontractors	-	-	-	-	12,976	12,976
Production materials expenses	-	-	-	-	10,821	10,821
Research and development	1,255	290	159	-	-	1,704
Other	10,838	3,340	1,149	63	3,973	19,363
Profit (loss) from ordinary activities (before elimination of internal turnover)	**(10,820)**	**(8,273)**	**(2,785)**	**43,490**	**1,112**	**22,724**
Elimination of internal turnover						(610)
Profit (loss) from ordinary activities (after elimination of internal turnover)						**22,114**
Segment's assets	2,143,345	38,721	444,316	25,164	32,132	2,683,678
Unallocated assets	-	-	-	-	-	60,720
Segment's liabilities	16,235	44,679	4,351	29,260	9,051	103,576
Unallocated liabilities	-	-	-	-	-	479,295
Capital additions	126,282	-	6,483	-	2,036	134,801
Unallocated capital additions	-	-	-	-	-	3,689
Depreciation and amortization	132,443	507	15,564	17	1,912	150,443
Unallocated depreciation and amortization	-	-	-	-	-	7,192
Impairment losses recognized in profit or loss	2,150	3,156	(15)	-	14	5,305
Unallocated impairment losses recognized in profit or loss	-	-	-	-	-	-

Secondary reporting format is geographical segments. The Company exports electricity to Russia and EU countries. During the year ended 31 December 2006 the Company exported 1.7 bn kWh of electricity (during the year ended 31 December 2005 – 4.1 bn kWh) and earned MLTL 78.2 from electricity exports (2005 – MLTL 163). In addition to that, the Group exported metal structures and repair services.

Country	Group 2006	Company 2006	Group 2005	Company 2005
Lithuania	899,849	860,727	805,342	766,923
Russia	39,079	38,164	111,438	110,422
Latvia	33,620	33,602	41,257	41,257
Estonia	6,897	6,413	11,959	11,431
Czech Republic	280	-	-	-
Germany	541	-	793	-
Norway	-	-	1,095	-
Total	**980,266**	**938,906**	**971,884**	**930,033**

Besides direct exports, the Company also sells peak energy intended for export. In 2006 sales of peak energy amounted to MLTL 10.1 (2005 – MLTL 14.1). Since May 2005, the Company has also exported electricity, generated on holidays and weekends. In 2006 such sales amounted to MLTL 11.8 (2005 – MLTL 14.9).

Other income of the Group is generated on the local market.

24. *Other income*

For the year ended as of 31 December the Group's and the Company's other income consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Transfer of the data	11,915	11,915	9,144	9,144
Rent of facility	2,581	2,581	2,698	2,698
Internet services	2,556	2,563	1,998	2,003
Rental services	1,790	1,851	1,524	1,580
Health and recreation services	924	725	870	704
Voice telephony services	428	466	1,578	1,618
IT services	411	411	806	806
Gain on disposal of property, plant and equipment	166	114	1,608	1,068
Construction and other services	76	76	573	298
Other income	958	631	2,310	1,924
Total other income	**21,805**	**21,333**	**23,109**	**21,843**

25. *Other expenses*

For the year ended as of 31 December the Group's and the Company's other expenses consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Depreciation and amortization	7,673	7,673	6,584	6,584
IT and telecommunication expenses	5,828	5,828	5,268	5,268
Write-off of property, plant and equipment	3,514	3,514	905	905
Payroll and related expenses	2,976	2,976	2,556	2,556
Donation and support expenses	2,029	1,950	3,355	3,047
Other employment related expenses	1,492	1,262	1,709	1,186
Maintenance expenses	1,268	1,268	587	587
Repair expenses	357	357	98	98
Loss on disposal of property, plant and equipment	-	-	463	463
Other expenses	1,795	1,304	1,847	996
Total other expenses	**26,932**	**26,132**	**23,372**	**21,690**

26. *Other gains (losses)*

For the year ended as of 31 December the Group's and the Company's other gains (losses) consisted of the following:

	Group 2006	Company 2006	Group 2005	Company 2005
Fair value gains on derivative financial instruments at fair value	466	466	192	192
Realized gains on derivative financial instruments	451	451	-	-
Income from advance repayment of the borrowing	237	237	-	-
Realized gains on debt securities	9	9	-	-
Dividends received	-	208	-	321
Other income	105	-	310	11
Foreign currency exchange gain	-	-	442	434
Fair value losses on derivative financial instruments at fair value	(506)	(506)	(139)	(140)
Impairment of investments	(416)	(2,376)	-	(748)
Foreign currency exchange loss	(92)	(83)	-	-
Borrowings servicing expenses	(82)	(82)	-	-
Realized losses on derivative financial instruments	(55)	(55)	-	-
Other expenses	(11)	(8)	-	-
Other gains (losses), net	**106**	**(1,739)**	**805**	**70**

27. Related party transactions

As of 31 December 2006 and for the year ended 31 December 2006 Group's related party transactions consisted of the following:

Related parties	Accounts payable	Accounts receivable	Purchases	Sales
Parties related to Ministry of Economy of the Republic of Lithuania	30,599	45,328	366,410	438,836
Associates	-	395	1,310	137
Total	**30,599**	**45,723**	**367,720**	**438,973**

As of 31 December 2006 and for the year ended 31 December 2006 Company's related party transactions consisted of the following:

Related parties	Accounts payable	Accounts receivable	Purchases	Sales
Parties related to Ministry of Economy of the Republic of Lithuania	30,596	44,301	366,357	429,027
Subsidiaries	602	14	5,051	109
Associates	-	395	1,310	72
Total	**31,198**	**44,710**	**372,718**	**429,208**

As of 31 December 2005 and for the year ended 31 December 2005 Group's related party transactions consisted of the following:

Related parties	Accounts payable	Accounts receivable	Purchases	Sales
Parties related to Ministry of Economy of the Republic of Lithuania	61,192	40,750	471,087	391,486
Associates	129	-	1,562	-
Total	**61,321**	**40,750**	**472,649**	**391,486**

As of 31 December 2005 and for the year ended 31 December 2005 Company's related party transactions consisted of the following:

Related parties	Accounts payable	Accounts receivable	Purchases	Sales
Parties related to Ministry of Economy of the Republic of Lithuania	60,880	39,958	466,250	391,450
Subsidiaries	1,449	12	7,401	176
Associates	129	-	1,551	-
Total	**62,458**	**39,970**	**475,202**	**391,626**

The transactions with related parties were concluded on an arm's length basis.

Compensation of key management personnel

For the year ended on 31 December the Company's and Group's compensation of key management personnel consisted of the following:

	2006	**2005**
Company		
Remuneration of the management	1,159	1,247
Other amounts paid to managers (bonuses for board members)	50	60
Number of managers	12	12
Subsidiaries		
Remuneration of the management	732	662
Other amounts paid to managers (bonuses for board members)	6	6
Number of managers	18	18
Group		
Remuneration of the management	1,891	1,909
Other amounts paid to managers (bonuses for board members)	56	66
Number of managers	30	30

Management includes: Board members of Group companies, heads of administrations and their deputies, chief accountants.

28. Earnings per share

For the year ended on 31 December earnings per share consisted of the following:

	2006	2005
Net profit attributable to equity holders of the Company	18,705	9,980
Weighted average number of shares	689,515,435	689,515,435
Earnings per share (LTL)	**0.03**	**0.01**

29. Dividends per share

For the year ended on 31 December dividends per share consisted of the following:

	For the financial year ended 31 December 2005	For the financial year ended 31 December 2004
Dividends declared	8,100	12,089
Weighted average number of shares	689,515,435	689,515,435
Dividends declared per share (LTL)	**0.01**	**0.02**

30. Financial risk management

Credit Risk
The credit risk of the Group and the Company is rather limited because the main buyers are reliable customers.

Neither the Group nor the Company has no significant credit risk concentration, because credit risks are allocated to numerous customers.

The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies.

Ratings of the banks issued by international rating agency Fitchratings:

Bank	Long-term credit rating	Short-term credit rating
SEB Vilniaus Bankas AB	A	F1
Hansabank group	A	F1
Bayerishe Hypo und Vereinsbank AG Vilnius branch	A+	F-1

Ratings of the banks issued by international rating agency Moody's:

Bank	Long-term credit rating	Short-term credit rating
Hansabank Group	A1	P-1
DnB Nord AB	A-	F-2
Bayerishe Hypo und Vereinsbank AG Vilnius branch	A1	P-1

Liquidity risk
The liquidity risk is managed by planning the movement of Group's cash flows. In order to reduce the liquidity risk, cash flow forecasts are produced. Overdraft and credit line agreements are used to manage the difference between the risks of late coverage of receivables and the short-term cash flows (proceeds and payments).

When concluding credit contracts, the Group companies follow the following principles: the amount of liquid assets and unused credit lines and credits in the bank accounts must cover the current liabilities of the Group companies, including the current portion of long-term borrowings.

As of 31 December 2006 the Group's and the Company's net working capital was negative and amounted to LTL'000 71,508 and LTL'000 80,305 respectively. The Group's current ratio was 0.64, the Company's – 0.57. The Group's quick ratio was 0.57, the Company's – 0.54.

As of 31 December 2005 the Group's and the Company's net working capital was negative and amounted to LTL'000 84,481 and LTL'000 93,193 respectively. The Group's current ratio was 0.63, the Company's – 0.57. The Group's quick ratio was 0.57, the Company's – 0.55.

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30. Financial risk management (continued)

Interest rate risk
According to the principles of financial risk management approved by the Group companies, the interest expenses must be forecasted with sufficient precision for a period that is not shorter than the period of establishing the ceiling price of the electricity transmission service (three years). The loan portfolio of the Group is formed on the basis of the following principle: at least 50% of all the borrowings must be with fixed interest rate, the remaining borrowings – with floating interest rate.

The Group companies have borrowings with fixed and floating interest rates, related to EURIBOR, EUR LIBOR and VILIBOR. In order to manage the risk of interest rate fluctuations, the Company concluded an interest rate swap transaction at the end of 2003 with Nordea Bank Finland Plc. Lithuanian branch, which will be fully realized on 30 June 2007 (initial notional amount was EUR'000 15,000, being decreased by EUR'000 875 each quarter starting from 30 June 2004). The fair value of this financial instrument as of 31 December 2006 was LTL'000 63 and in the balance sheets derivative financial instruments are accounted under other current assets.

At the end of 2005 the Company concluded an interest rate swap transaction with SEB Vilniaus Bankas AB (notional amount is EUR'000 5,000), which was fully realized on 15 December 2006. At 5 July 2006 the Company concluded an interest rate swap transaction with SEB Vilniaus bankas AB (notional amount is EUR'000 7,500), which was realized on 15 December 2006. From realization of both transactions mentioned above the Company earned LTL'000 396, i.e. the total market value of these transactions as of 15 December 2006.

Foreign exchange risk
In order to manage the foreign exchange risk, the Group companies conclude credit contracts only in Euros and Litas. The sales/purchase contracts are also denominated mostly in Euros and Litas.

The Group companies have no significant concentration of foreign exchange risk; therefore, it did not use any financial instruments facilitating control over the foreign exchange risk in 2006.

As of 31 December 2006 monetary assets and liabilities in various currencies consisted of the following:

	Group		Company	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	117,413	416,067	107,833	406,453
EUR	2,654	121,563	735	121,526
USD	63	445	49	445
RUR	62	59	-	-
LVL	13	4	-	-
Total	**120,205**	**538,138**	**108,617**	**528,424**

As of 31 December 2005 monetary assets and liabilities in various currencies consisted of the following:

	Group		Company	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	108,908	426,257	100,938	418,840
EUR	27,547	156,240	26,760	154,851
USD	252	11	195	-
RUR	21	29	-	-
LVL	76	334	-	129
Total	**136,804**	**582,871**	**127,893**	**573,820**

31. Reclassification of amounts in 2005 comparative financial information

Reclassifications consisted of the following:

a) In the Group's and the Company's financial statements for the year ended 31 December 2006 derivative financial instruments are accounted under other current assets. Since the derivative financial instruments are accounted for at their fair value which is being continuously revised, the derivative financial instruments are accounted for either in the current assets or current liabilities (with regard to the changes in fair value). The Group's and the Company's comparative financial information for the year ended 31 December 2005 was reclassified. Due to the above mentioned reclassification, as of 31 December 2005 the Group's and the Company's non-current assets decreased and current assets increased by LTL'000 192.

b) In the Group's and the Company's financial statements for the year ended 31 December 2006 prepayments received under grant agreements were accounted under advances received as not all contractual obligations under related grant agreements were fulfilled. The Group's and the Company's comparative financial information for the year ended 31 December 2005 was reclassified. Due to the above mentioned reclassification, as of 31 December 2005 the Group's and the Company's non-current liabilities decreased and current liabilities increased by LTL'000 6,912 respectively.

Total effect of the above-mentioned reclassification of the financial statement components consisted of the following:

Group		**As previously reported**	**Reclassification**	**As reclassified**
Balance				
As of 31 December 2005 :				
Other receivables	(a)	9,124	(192)	8,932
Total non-current assets		**2,602,418**	**(192)**	**2,602,226**
Other assets	(a)	58	192	250
Total current assets		**141,980**	**192**	**142,172**
TOTAL ASSETS		**2,744,398**	**-**	**2,744,398**
Grants	(b)	23,554	(6,912)	16,642
Total non-current liabilities		**363,130**	**(6,912)**	**356,218**
Trade and other payables	(b)	169,728	6,912	176,640
Total current liabilities		**219,741**	**6,912**	**226,653**
TOTAL EQUITY AND LIABILITIES		**2,744,398**	**-**	**2,744,398**

Company		**As previously reported**	**Reclassification**	**As reclassified**
Balance				
As of 31 December 2005 :				
Other receivables	(a)	9,124	(192)	8,932
Total non-current assets		**2,607,956**	**(192)**	**2,607,764**
Other assets	(a)	46	192	238
Total current assets		**124,887**	**192**	**125,079**
TOTAL ASSETS		**2,732,843**	**-**	**2,732,843**
Grants	(b)	23,456	(6,912)	16,544
Total non-current liabilities		**362,460**	**(6,912)**	**355,548**
Trade and other payables	(b)	161,900	6,912	168,812
Total current liabilities		**211,360**	**6,912**	**218,272**
TOTAL EQUITY AND LIABILITIES		**2,732,843**	**-**	**2,732,843**

32. Commitments and contingencies

Guarantees issued
In 2005 under the guarantee agreements the Company guaranteed 25% of Nordic Energy Link AS liabilities to Nordic Investment Bank (LTL'000 50,325) and to SEB Eesti Uhispank AB (LTL'000 29,435). The guarantees expire after the full repayment of the borrowings by the associate to respective banks, i.e. 15 March 2014 and 15 June 2014 respectively.

As of 31 December 2006, upon request of the Company, bank Hansabankas AB issued the following guarantees:

1) Beneficiary - Kaunas University of Technology, amount - LTL'000 5, type - payment guarantee, maturity - 1 February 2007;
2) Beneficiary - Vilnius Municipality, amount - LTL'000 16, type - performance security, maturity- 2 December 2009;
3) Beneficiary - Vilnius University, amount LTL'000 12, type - tender security, maturity - 1 March 2007.

Legal proceedings
As of 31 December 2006 and 2005 the Group and the Company was not involved in legal proceedings which in the management opinion would have a material impact on the financial statements.

33. Subsequent events

At 7 December 2006 the Board of the Company approved the Company's organizational - legal restructuring in line with the European Union (EU) and Lithuania's legal acts and with regard to strategic goals of the Company, its obligations to implement projects of strategic importance and its future role in the power system of Lithuania. However, the final model of reorganization of the Company has not been chosen yet.

At 8 December 2006 the Company and Polskie Sieci Elektroenergetyczne (Poland) signed a preliminary agreement on the establishment of a joint venture which will implement the interconnection project of Lithuanian and Polish grids. During a six-month period a working group formed from representatives of both parties will perform legal, financial and technical analyses and will prepare documents deemed necessary for the establishment of the joint venture. After the completion of construction of this missing interconnection link, a Baltic Ring interconnecting the power systems of Lithuania, Latvia, Estonia, Finland, Sweden and Poland will be completed. This will promote the safety and the reliability of functioning of the electric grids of the Baltic countries. It is projected to construct more than 100 km of high voltage transmission lines in both countries and to install a back-to-back converter of 1,000 MW capacity in Lithuania.

At 4 January 2007 there was a trade of electricity started by a newly constructed undersea cable Estlink. The main purpose of the undersea cable - to supply electricity produced in the Baltics to the electricity market of Nordic countries and to ensure a possibility to purchase additional power to cover potential deficit of generating capacities in the Baltic States. It is projected to transmit about 2 TWh of electric energy through the line per year. The Company intends to export about 500 million kWh of electricity per year by using the line. The Estlink project partners are: Lietuvos Energija AB, Latvenergo (Latvia), each of them having control over 25% of the shares of the joint venture, Eesti Energia (Estonia), owning 39.9% of the shares, and two Finnish companies Pohjolan Voima and Helsinkin Energia, which together own 10.1% of the shares.

At 18 January 2007 the Company established a new subsidiary Kruonio Investicijos UAB. The Company owns 100% of the subsidiary's shares. The share capital of the new subsidiary is LTL'000 10 and is divided into 100 ordinary registered shares with a nominal value of LTL 100 each. The objective of Kruonio Investicijos UAB is the development of social, recreation sites, including their design, construction and maintenance of their surrounding areas.

At 6 February 2007 in Stockholm the Company and Swedish transmission system operator Svenska Kraftnat signed an agreement with Swedish company SWECO International, which had been selected for the contract award after the public tender, for preparation of a feasibility study for interconnection of transmission systems of both countries. The study will assess the feasibility of interconnection of Lithuanian and Swedish power grids by constructing the undersea cable of approx. 350 km length and 700 – 1,000 MW capacity across the Baltic Sea. This interconnection is important for promotion of energy safety and reliability of electricity supply of the entire Baltic region as well as for integration of the Baltic States with the European Union electricity market. It is projected to complete the study in September 2007.

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