



LIETUVOS ENERGIJA

L I E T U V O S E N E R G I J A A B

24 /04/2008 Ref. No 12-3601

STATEMENT OF THE RESPONSIBLE PERSONS

Abiding by the provisions of Article 21 of the Law on Securities of the Republic of Lithuania and by the Rules for the Drawing up and Submission of the Periodic and Additional Information of the Securities Commission of Lithuania, we, the undersigned Rimantas Šukys, Finance Director, and Sigitas Baranauskas, Chief Financier of Lietuvos Energija AB hereby confirm that, to the best of our knowledge, the consolidated financial statements of Lietuvos Energija AB for the year 2007, prepared in accordance with the International Financial Reporting Standards effective in the European Union, give a true and fair view of the consolidated assets, liabilities, financial position and profit of Lietuvos Energija AB. The consolidated annual report gives a true view of business development and operating activities, the status of the Issuer and the status of the consolidated companies along with the description with the main encountered risks and uncertainties.

ENCLOSURES: Independent auditor's opinion, consolidated annual report and financial statements for the year ended 31 December 2007 - 66 pages.



Rimantas Šukys

Finance Director

Sigitas Baranauskas

Chief Financier

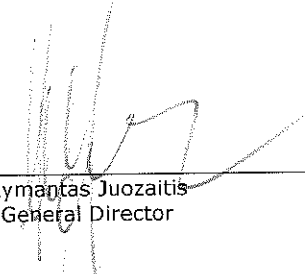
LIETUVOS ENERGIJA AB

*Independent Auditor's Report,
Consolidated Annual Report and
Financial Statements for the Year
Ended 31 December 2007*


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Consolidated annual report and financial statements signed on 21 March 2008



Rymantas Juozaitis
General Director



Sigitas Baranauskas
Chief Financier

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Lietuvos Energija AB:

Report on the Financial Statements

We have audited the accompanying financial statements of Lietuvos Energija AB (hereafter – the Company) and the consolidated financial statements of the Company and subsidiaries (hereafter – the Group) (pages 28-66), which comprise the balance sheets as of 31 December 2007, 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 the consolidated financial statements present fairly, in all material respects the financial position of the Company and the Group as of 31 December 2007, 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.

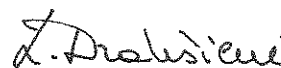
Report on other legal and regulatory requirements

Furthermore, we have read the accompanying consolidated annual report for the year ended 31 December 2007 (page 4-27) 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 2007.



UAB Deloitte Lietuva
Torben Pedersen
Partner

Vilnius, Lithuania
21 March 2008



Certified auditor Lina Drakšienė
Auditor's Certificate No. 000062

**CONSOLIDATED ANNUAL REPORT
 FOR THE YEAR ENDED 31 DECEMBER 2007**

CONSOLIDATED ANNUAL REPORT OF LIETUVOS ENERGIJA AB AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR 2007

The consolidated annual report of joint-stock company Lietuvos Energija (hereinafter – the Company) and its subsidiaries (hereinafter referred to as the Group) has been prepared by Company management and approved by the Board in accordance with the Law on Financial Reporting of Enterprises of the Republic of Lithuania, Chapter Four⁽¹⁾, Article 24⁽¹⁾ and Law on Consolidated Financial Reporting of Enterprises of the Republic of Lithuania, Chapter Two⁽¹⁾, Article 9⁽¹⁾, and also Resolution No. 1K-3 of Securities Commission of the Republic of Lithuania, dated 23 February 2007 "Regarding Approval of Rules for Preparation and Submission of Periodical and Additional Information".

GENERAL INFORMATION ABOUT THE GROUP OF ENTERPRISES

REPORTING PERIOD FOR WHICH A CONSOLIDATED ANNUAL REPORT HAS BEEN PREPARED

The consolidated annual report of the joint-stock company Lietuvos Energija and its subsidiaries has been prepared for the financial year 2007.

THE GROUP COMPANIES AND THEIR CONTACT INFORMATION

As of 31 December 2007 the Company had a direct control over three subsidiaries: Energetikos Pajėgos UAB, Kauno Energetikos Remontas UAB and Kruonio investicijos UAB. The company holds 100% of shares in these subsidiaries. Indirectly, through Kauno Energetikos Remontas UAB, the Company had the majority votes in Gotlitas UAB, Kaliningradskij Energoremont OOO and Rigas Energetikas Remonts SIA, the latter on 4 October 2007 by resolution No. 6-12/119368 of Company Registry Office of the Republic of Latvia, was deregistered from the commercial register.

These consolidated financial statements for the year ended 31 December 2007 include Lietuvos Energija AB, Kauno Energetikos Remontas UAB, Gotlitas UAB, Kaliningradskij Energoremont OOO, Energetikos Pajėgos UAB and Kruonio Investicijos UAB financial statements. Contact information of the Group is presented in the following table:

| Name | Legal form | Registration data and place | Company code | Registered address | Phone, fax, email |
|----------------------------------|---------------------------|----------------------------------------------------------------------------|--------------|------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Lietuvos Energija AB | Joint stock company | 4 Dec 1995 Enterprise Register Office of the Republic of Lithuania | 220551550 | Žvejų str. 14, LT-09310 Vilnius | Phone: (8 5) 278 20 82 Fax: (8 5) 212 67 36 www.lietuvosenergija.lt; info@lietuvosenergija.lt |
| Energetikos Pajėgos UAB | Limited liability company | 26 Nov 2003 Enterprise Register Office of the Republic of Lithuania | 136046431 | T.Masiulio str. 16D, Kaunas | Phone: (8 37) 30 98 97 Fax: (8 37) 30 98 03 www.energetikospajegos.lt |
| Kruonio Investicijos UAB | Limited liability company | 18 Jan 2007 Enterprise Register Office of the Republic of Lithuania | 300634954 | Kruonio II k., Kaišiadorių district | Phone: (8 687) 173 14 |
| Kauno Energetikos Remontas UAB | Limited liability company | 27 Apr 2000 Enterprise Register Office of the Republic of Lithuania | 135617795 | Chemijos str. 17, Kaunas | Phone: (8 37) 45 67 02 Fax: (37) 45 29 48 www.ker.lt; ker@ker.lt |
| Gotlitas UAB | Limited liability company | 30 Sept 2003 Enterprise Register Office of the Republic of Lithuania | 136031358 | R.Kalantos str. 119, Kaunas | Phone: (8 37) 37 03 90 |
| Kaliningradskij Energoremont OOO | Limited liability company | 3 Oct 2001 Enterprise Register Office of Kaliningrad Region | SP-1127/1123 | Jaltinskaja str. 66, Kaliningradas | Phone: 00740 12578896 |

In addition 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 (hereinafter – DC Baltija) (33.33% of shares); Geoterma UAB (23.44% of shares). The liquidation procedure of DC Baltija was completed in June 2007.

LIETUVOS ENERGIJA AB
Company code 220551550, Žvejų g. 14, LT-09310 Vilnius

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MAIN BUSINESS ACTIVITIES OF THE GROUP COMPANIES

| Company | Shares owned by the group | Main activity |
|----------------------------------|---------------------------|------------------------------------------------------------------|
| Lietuvos Energija AB | | Electricity transmission, system power services |
| Energetikos Pajėgos UAB | 100 per cent | Design of energy objects |
| Kruonio Investicijos UAB | 100 per cent | Development of public, engineering and recreational objects |
| Kauno Energetikos Remontas UAB | 100 per cent | Repair of energy equipment, manufacturing of metal constructions |
| Gotlitas UAB | 100 per cent | Accommodation services, trading activities |
| Kaliningradskij Energoremont OOO | 99 per cent | Repair of energy equipment |

ISSUER'S CONTRACTS WITH BROKER COMPANIES AND (OR) CREDIT INSTITUTIONS, PROVIDING INVESTMENT SERVICES AND (OR) PERFORMING INVESTMENT BUSINESS

On 29 December 2006 Lietuvos Energija AB and bank Hansabankas AB entered into issuer's securities management agreement regarding accounting of issuer securities and management of personal securities accounts. The contract shall be valid until 31 December 2008.

At 10 August 2006 Lietuvos Energija AB and bank SEB AB entered into an agreement regarding bonds listing (preparation of bonds emission).

TRADING IN SECURITIES OF GROUP COMPANIES IN THE REGULATED MARKETS

Lietuvos Energija AB shares are traded on Vilnius Stock Exchange (VSE). The company's shares are included on an additional VSE trading list. The company has issued 689,515,435 ordinary registered shares with nominal value of LTL 1 each (ISIN code LT0000117681).

On 29 September 2006 Lietuvos Energija AB issued 75,000 ordinary registered bonds of 1,096 days maturity, EUR 100 par value each, with total nominal value EUR 7,500,000 (seven million five hundred thousand) bearing 4.06% annual interest. The bonds have been included into VSE debt securities trading list (ISIN code LT1000403311).

POSITION OF THE GROUP COMPANIES' AND BUSINESS PERFORMANCE OVERVIEW, DESCRIPTION OF MAIN RISK AND UNCERTAINTIES

Based on several legal acts in recent years adopted by the state Lithuanian electricity market is a gradual opening, seeking to create a competitive environment in electricity generation and supply. Companies, engaged in monopoly activities within Lithuania territory (electricity transmission, provision of system services), are little effected by changes in electricity market. The company's business was positively effected by the country's economy growth and respectively – electricity consumption growth. The goal of the company is to ensure reliable functioning of the power system. In 2007 the country's power system had no major disruptions.

The financial performance indicators of the group companies improved during in the reporting financial year, the companies were profitable. In 2007 international ratings agency Standard & Poor's reviewed Lietuvos Energija AB long-term credit rating in foreign currency which remained the same as previously: A-, the rating perspective was changed from stable to negative. The main reason for changing of rating perspective – possible increase in the company business risk related to implementation of the new nuclear power plant's construction project. The short-term credit rating in foreign currency: A-2.

TRANSMISSION SYSTEM OPERATOR'S BUSINESS

The core business of Lietuvos Energija AB – performance of electricity transmission system operator's function; for the performance of this activity Lietuvos Energija AB has an unlimited validity period electricity transmission license. The company plans a long-term development of power system due consideration of electricity supply reliability, quality, efficiency, consumption, management and environmental requirements, indicated in National energy strategy, improving conditions of grid access and by coordinating it with Government authorities and distribution networks operators. The long-term planning of power system's development is based on scientific research. The company, as a transmission system operator, is responsible for the stability and reliability of power system's operation, performance of national balancing function and provision of system services within the territory of Lithuania, operation, maintenance and development of interconnections with power systems of other countries.

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The price caps for electricity transmission service tariff are adjusted by Control Commission for Prices and Energy (hereinafter – Commission), in line with Commission Resolution No. 03-85 dated 30 August 2004, for approval of „Methodology of electricity transmission and distribution tariffs and their price caps adjustment“. The price caps are adjusted for the term of 3 years and each year are revised subject to Commission’s defined effectiveness ratios, inflation, change of transmission volumes and other factors, which do not depend on the Company.

Each year the company’s board approves consumer price for transmission service, which cannot exceed the adjusted price cap. Since 1 January 2007, a new price of transmission service was approved – LTC 3.58 /kWh, which was by LTC 0.11 /kWh higher than in 2006 and for the first time nearly reached the Commission’s adjusted price cap.

The below-presented transmission prices dynamics and structure table shows that the transmission service price after the reorganization of the company during 2002 – 2007 increased by about 3 per cent

THE DYNAMICS OF ELECTRICITY TRANSMISSION PRICES IN 2002-2008

| | 2002 Q1 | 2002 QII-IV | 2003 m. | 2004 m. | 2005 m. | 2006 m. | 2007 m. | 2008 m. |
|---------------------------------------------------------------------|-------------|----------------|-------------|-------------|-------------|-------------|-------------|--------------|
| The Commission’s adjusted transmission service’s price cap (ct/kWh) | 3.80 | 3.82 | 3.80 | 3.63 | 3.78 | 3.70 | 3.59 | 5.36* |
| including for transmission | 2.35 | 2.43 | 2.41 | 2.25 | 2.51 | 2.43 | 2.41 | 4.08 |
| for capacity reserve | 1.45 | 1.39 | 1.39 | 1.38 | 1.27 | 1.27 | 1.18 | 1.28 |
| The company board’s approved transmission service price (LTC/kWh) | 3.80 | 3.39 | 3.39 | 3.38 | 3.47 | 3.47 | 3.58 | 3.68* |
| including for transmission | 2.35 | 2.00 | 2.00 | 2.00 | 2.20 | 2.20 | 2.40 | 2.40 |
| for capacity reserve | 1.45 | 1.39 | 1.39 | 1.38 | 1.27 | 1.27 | 1.18 | 1.28 |

* Not including public obligation price

Since 2008 the transmission price structure underwent a significant change – compensation to electricity generators for public service obligation (hereinafter – VIAP) became a part of transmission price. Including the said price for public service obligation, the transmission price from 1 January 2008 accounts for LTC 7.4 /kWh.

During 2007 as a transmission system operator the company transmitted 9.7 billion kWh of electricity through its high voltage power lines for domestic needs. The volume of transmitted electricity was higher by 3.1% year-to-year: the volume of electricity transmitted to Rytų Skirstomieji Tinklai AB, was higher by 4% year-to-year and accounted for 4.5 billion kWh, to VST AB – 4.2 billion kWh or higher by 4.5% year-to-year, to eligible consumers – 1 billion kWh, or lower by 5.8%. This reduction was mostly effected by a discontinuation of Ekranas AB business and Mažeikių Nafta AB reduced electricity consumption.

BUSINESS OF MARKET OPERATOR

In addition to transmission system operator, the company also performs the function of the market operator. In conducting this activity the company manages the domestic electricity market: registers bilateral agreements of wholesale market players, accumulates assignments for electricity trade at the auction, determines ranking of sales, documents trade transactions under bilateral agreements and in the auctions, presents electricity trade information to market players and supervisory institutions.

Suppliers within Lithuanian wholesale market trade in electricity of three types – contractual based on direct bilateral agreements, signed between generators and suppliers; public service obligation electricity (the volume of such electricity – quotes – are set for the generators by the Ministry of Economy, and prices – by the Control Commission for Prices and Energy (in 2007 due to natural gas price increase, there was a substantial (in thermal power plants from LTC 10.86 /kWh to LTC 15.42 /kWh) increase in sales prices of such electricity); additional electricity, sold through auction of generators (in cases when contractual and public service obligation electricity in quantities does not satisfy the domestic needs).

In 2007 Lithuania’s wholesale market demand was 10.62 billion kWh (in 2006 – 10.19 billion kWh). Wholesale market players purchased 6.44 billion kWh of contractual electricity, 4.18 bn kWh of additional and public service obligation electricity.

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Additional electricity and public service obligation electricity was traded through Lietuvos Energija AB, as the transmission system and market operator. Compared to 2006, the electricity trade volumes of Lietuvos Energija AB in 2007 dropped from 4.51 billion kWh to 4.18 billion kWh, i.e. 7.3 per cent. Such decrease in trade volume was subject to shorter maintenance period of Ignalinos Atominė Elektrinė VĮ and the resulting trade volumes through the auctions decrease, and correspondingly – increased trade volumes of contractual electricity – from 5.68 billion kWh in 2006 to 6.44 billion kWh in 2007.

As afore mentioned, from 1 January 2008, public service obligation electricity will not be traded in the domestic market – compensation funds for such services will be collected through provision of electricity transmission service. There will be a respective earnings decrease of the Company, as a market operator.

It is notable that the trade in the above-mentioned additional electricity and public service obligation electricity will have no effect on Company's profit in the long run – two or three year period. In case when the trade in public service obligation during the current year results in profit or loss, the Commission, adjusting the sales price of VIAP for the suppliers for the subsequent year, reduces it (or increases) by the amount of earnings (loss).

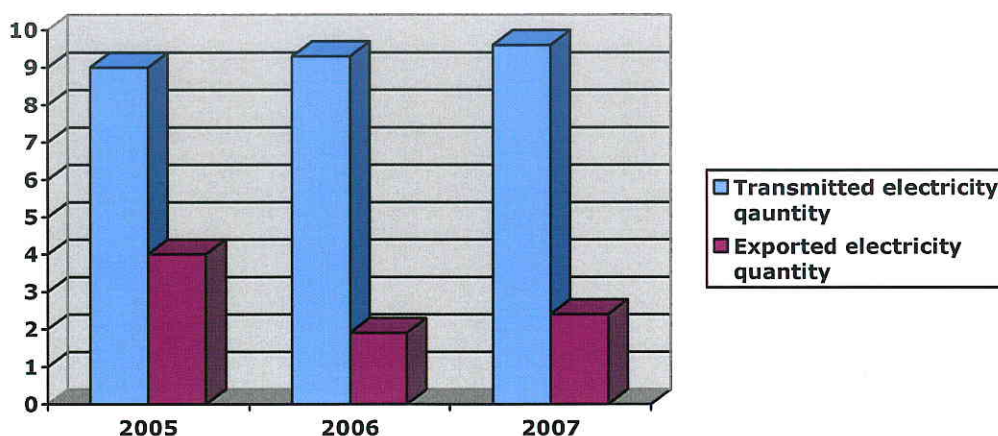
ELECTRICITY GENERATION AND EXPORTS

The company has an unlimited validity period permission to perform electricity generation, import and export.

Lietuvos Energija AB owns two power plants – Kaunas HPP and Kruonis PSP – whereby it generates electricity. These power plants operated as integral parts of electricity transmission system, the electricity generated by them was mostly used for compensation of the company's technological losses and ensuring the balance of generation and consumption levels. These power plants during the reporting period supplied to the transmission grid 0.86 billion kWh of electricity, which accounted for approximately 7 per cent of the entire electricity, supplied in the country.

The company continuously strives to optimize export structure, to achieve the highest benefit at the least possible cost. In 2007 exports accounted for 2.4 billion kWh (including peak electricity, export during weekends and holidays). Compared to 2006, electricity export increased by 11%, however in 2008 a reduction in export volume is expected due to trends in domestic electricity consumption and appearance of new exporters in the market. The significant change in electricity export structure since 2007: in addition to usual directions of export to Russia, Latvia and Estonia, the electricity was also traded with Scandinavian countries using ESTLINK cable.

THE DYNAMICS OF TRANSMITTED AND EXPORTED ELECTRICITY IN 2005-2007, BILLION KWH



OTHER ACTIVITIES

The Company operates and expands telecommunication network, the majority capacity of which is used for the needs of transmission system operator and also provision of information technologies and telecommunication services (hereinafter – ITT) to other consumers. Despite strong competition in the ITT services market, the sales of company's ITT services did not decrease in the recent years, the sales structure was optimized.

In 2007 150 km of optical fiber cable was laid, 6 substations were connected to the Company's optical fiber network and 10 substations connected to the telecommunication network; 1 Gbit/s bandwidth backup ring was installed in G-Ethernet network to ensure the reliability of data flow transfer; 25 telecommunication nodes were installed in the data network for collection of dispatch control information, commercial flow readings, information of substations control and monitoring systems; a system of three zones was installed in internal data network enabling separation of dispatch

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control system data from other consumers' information systems data. In 2007 the company installed electricity flows reporting system (ESAS), designed for storing of information about transmitted electricity flows and sending information reports to electricity market players about actual power flows.

SUBSIDIARIES

The main activities of the second largest company of the Group – limited liability company Kauno Energetikos Remontas – are energy equipment diagnostic, upgrade, repairs, installation, spare parts for energy equipment manufacturing, metal structures for energy and industrial purpose manufacturing, spare parts for boilers and engines manufacturing, hermetic oil transformers manufacturing. The main activities are carried out in four divisions of the company: Boiler Manufacturing, Turbine manufacturing, Mechanical and Electric; in 5 laboratories, in Metal and Welding departments.

Kauno Energetikos Remontas UAB has a direct control over two subsidiaries: Gotlitas UAB in Kaunas (100% owned), Kaliningradskij Energoremont OOO in Russia (99% owned, other 1 % of the shares are owned by a private individuals). The main activities of Gotlitas UAB are: retail trade, accommodation (hotel and hostel) services, premises lease and services of cafe and bar. The main activity of Kaliningradskij Energoremont OOO –energy equipment repairs services.

In 2007 Kauno Energetikos Remontas UAB won in "Successfully operating company" category and a gold medal "Best product of Lithuania in 2007" for manufacturing and installation of heating surface units for boilers/utilizers KU-125 in Mažeikių Nafta AB in the competition organized by Lithuanian Confederation of Industrialists.

Kauno Energetikos Remontas results of operations are becoming more significant to the Group as a result of growth in services rendered to third parties.

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

Kruonio Investicijos UAB business objective is development of public, engineering and recreational objects. The main direction of its activities – preparation and implementation of Kruonis PSP territory investment project.

INVESTMENTS INTO PROPERTY PLANT AND EQUIPMENT AND INTANGIBLE FIXED ASSETS

In 2007 the Company's investments into property, plant and equipment and intangible fixed asset amounted to MLTL 152. The Company used its own funds (89%) and funds of clients or EU funds (11%) for financing the acquisitions. Own funds consisted of connection to the grid of wind parks and other generations funds, European regional development funds and general financing funds, allocated for rehabilitation of Kaunas HPP.

Investment trends in 2007 remained the same as in previous years: the reconstruction and development of the transmission grid (invested MLTL 76.4), implementation of technological measures (installation of reactive power measures, installation of commercial meters, upgrade and development of dispatch control measures totaling MLTL 13), upgrade and development of IT systems and telecommunications (MLTL 3.9), rehabilitation and modernization of power plants (MLTL 29), construction and reconstruction of industrial buildings and other facilities, acquisition of equipment, intangible fixed assets.

One of the key objectives of Lietuvos Energija AB – integration of Lithuanian power system into West European electricity market and development of regional cooperation. In the beginning of 2008 management of Lietuvos Energija AB and PSE Operator (Poland) signed a shareholders agreement of an enterprise, which will perform works of implementation of interconnection project of Lithuanian and Polish power systems. It is planned, that the project implementation company will have to draft a technical project, revise and approve routes of new lines, carry out an environmental impact assessment, other preparatory works first. Lietuvos Energija AB and Svenska Kraftnät, the Transmission System Operator of Sweden, completed the feasibility study on the interconnection between Lithuanian and Swedish power systems. The results of the study showed that based on the assessed technical, economic and legal aspects, the interconnection of the systems is feasible and economically justified.

Moreover, the Company assigned by the Government carried out some pre-design works related to the project of construction of the new nuclear power plant in Lithuania. The most important of those was the approved Environmental Impact Assessment Program and its commenced implementation. The completion of the environmental impact assessment of the new nuclear power plant is expected in the second half of 2008.

In 2007 investments of Kauno Energetikos Remontas UAB group into property, plant and equipment and intangible fixed assets amounted to MLTL 1.6; the largest portion consisted of machines and equipment. The investments were financed by the company's own funds.

Energetikos Pajėgos UAB invested LTL`000 12 into property, plant and equipment and intangible fixed assets – purchases of hardware and software.

RISK FACTORS RELATED TO THE ISSUER'S OPERATIONS

POLITICAL RISKS

The Company operates in the energy sector regulated by the Law on Electricity of the Republic of Lithuania. Therefore it is necessary to assess the impact of amendments to the mentioned Law and other legal acts to the Company's activities and its results of operations.

At 1 February 2008, the Law No.X-1446 on revision and amendment of the Law of the Republic of Lithuania on the Nuclear Power Plant, Articles 8, 10, 11, 20 was adopted, stipulating that the national investor for the new nuclear power plant project will be established not on the basis of Lietuvos Energija AB, as it was prescribed by the initial Law, but on the basis of a newly established holding company. In the course of preparation of this report, the Company's management did not pass any resolutions on the reorganization of the Company. The Company's activities and the results of operation may depend on the new holding company decisions on the functions and the structure of the Company after the establishment (should this happen) of the new holding company in line with the Law on the Nuclear Power Plant.

The price cap for the electricity transmission services is set by the National Control Commission for Prices and Energy; the actual prices are approved by the Board of the Company. The Company's financial results of operations may depend on these decisions, e.g. in setting the price cap for the electricity transmission service for the period of 2005 – 2007, the increase in amortization and depreciation expenses due to the assets revaluation at their fair value were not included in the price.

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 remains and is related to the possible failures in obtaining new contract through the tenders organized and the Law on Public Procurement.

FINANCIAL RISKS

The Group's companies are facing financial risks in their operations, i.e. credit risk, liquidity risks and market risk (risks of foreign currency, interest rate in relation to fair value and cash flows, as well as the securities price risk). In managing the aforesaid risks, the Group's companies seek to reduce the effect of factors which could negatively impact financial results of their operations.

Credit Risk

The credit risk of the Group and the Company related to the amounts receivable is rather limited because the main buyers are reliable customers.

Neither the Group nor the Company has significant credit risk concentration, because credit risks are spread between 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.

Liquidity risk

The liquidity risk is managed by planning the cash flows of the Group. In order to minimize the liquidity risk, cash flow forecasts are prepared. Overdraft and credit line agreements are used to manage the difference between the risks of late collection 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.

At the end of the reporting period the Company's net working capital was negative and amounted to – MLTL 49 (at the end of 2006 it was – MLTL 80.3), however the Company had unused overdrafts and credit line facilities in the amount of MLTL 71.1.

MARKET RISK

Interest rate risk

The income and cash flows of the Group companies are not exposed significantly to the fluctuations of the market interest rate. The interest rate risk related mainly to long-term borrowings. The borrowings issued at floating interest rates expose the Group to cash flow interest rate risk. The borrowings issued at fixed interest rates expose the Group to fair value interest rate risk.

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According to the principles of financial risk management approved by the Group's companies, the interest expenses must be forecasted with sufficient precision for a period that is not shorter than the period of establishing the price cap 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 at the fixed interest rate, the remaining borrowings – at the floating interest rate.

The Company has borrowings with fixed and floating interest rates, the latter related to EURIBOR, EUR LIBOR and VILIBOR.

The Company manages the interest rate risk by entering into interest swap agreements. These agreements are concluded when the increase of the interest base-rate is projected in the future and hence the interest payable by the Company at the floating interest rate could increase respectively, or when the decrease of interest base-rate is projected in the future and hence the interest payable by the Company at the fixed interest rate could increase respectively.

With an aim to manage the interest rate fluctuation risk, at the end of 2003 the Company entered into the interest rate swap agreement with Nordea Bank Finland Plc., Lithuanian branch, with maturity on 30 June 2007.

Foreign exchange risk

In order to manage the foreign exchange risk, the Group's companies conclude credit contracts only in Euros and Litas. The sales/purchase contracts are also denominated mostly in Euros and Litas. Starting from 2 February 2002, Litas is pegged to EUR, therefore the Group's and the Company's equity is not sensitive to changes in foreign currencies exchange rates.

The Group's 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 2007 and in 2006.

Risk of price changes of securities

The Group's companies have not acquired any securities (shares, bonds, etc.) for trading securities thus they do not face the risks related to security prices.

For detailed information on the management of financial risks, refer to Management of Financial Risk, note 29 in Explanatory Notes to the Financial Statements

Technical- technological risk factors

The Lithuanian Power System has many interconnection lines with the neighboring power systems. The available control of capacities and balance regulation means are not numerous, thus the capacity and balance control is rather complicated. The power plants and electricity networks owned by Lietuvos Energija AB are not new. The major part of the electric lines shores were constructed more than 30 years ago and their life time has reached the projected one. The transformer substations are in better condition, because more than 30% of the substations have been recently rehabilitated.

The Company spends 50% of its investments in the rehabilitation of the transmission grid, reconstruction of substations by increasing the reliability and efficiency of the power system, reducing the probability of accidents (on the average, from 7 to 10 reconstruction projects are completed every year).

Ecological risk factors

There is a very low probability that the Company's operations may be restricted or terminated due to the damage on the environment. The Company operates in accordance with prevention and control permits issued by the Regional environmental protection departments in the facilities with a higher risk of damage on the environment.

The most important issues of the environmental protection which have to be solved by the Company – safe storage of ecologically hazardous substances, integration of energy equipment and constructions with the landscape, maintaining the permissible fluctuations of water levels in Kaunas Lagoon and Nemunas below Kaunas HPP. The Company is in compliance with all the applicable environmental protection requirements.

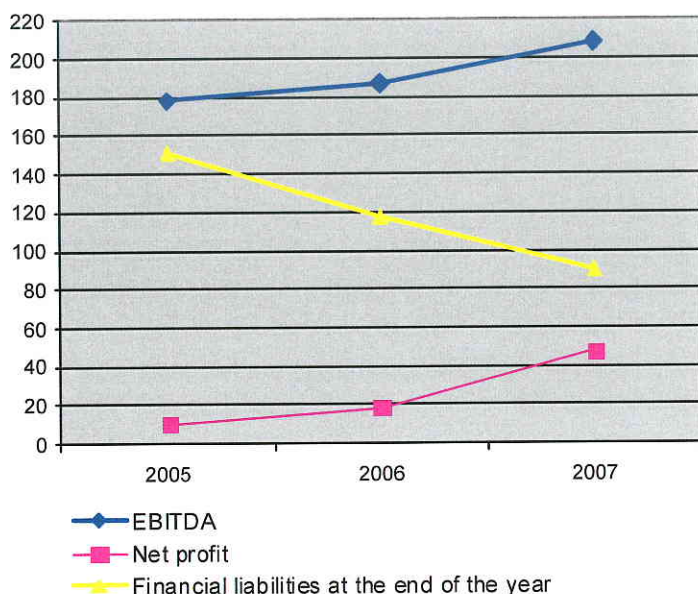
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ANALYSIS OF THE GROUP'S FINANCIAL AND NON-FINANCIAL PERFORMANCE RESULTS, INFORMATION
RELATED TO THE ENVIRONMENTAL PROTECTION AND HUMAN RESOURCES MANAGEMENT

The financial performance results of Lietuvos Energija AB stand alone company are presented in the table below.

| | MEASUREMENT UNITS | FINANCIAL STATEMENTS 2005 | FINANCIAL STATEMENTS 2006 | FINANCIAL STATEMENTS 2007 |
|--------------------------------------------------------------------------------|----------------------|---------------------------------|---------------------------------|---------------------------------|
| FINANCIAL RESULTS | | | | |
| Sales | LTL thousand | 930,033 | 938,906 | 1,110,718 |
| EBITDA | | 177,661 | 186,292 | 208,403 |
| Operating profit | | 21,854 | 26,365 | 63,748 |
| Net profit | | 10,132 | 18,361 | 47,351 |
| Cash flows from operations | | 161,492 | 183,887 | 196,200 |
| Financial liabilities | | 150,701 | 116,917 | 89,821 |
| Investments | | 123,460 | 152,616 | 151,984 |
| Fixed assets at the end of the year | | 2,607,764 | 2,589,812 | 2,605,779 |
| FINANCIAL STRUCTURE: | | | | |
| Debt /equity | ratio | 0.27 | 0.24 | 0.24 |
| Financial debt/equity | | 0.07 | 0.05 | 0.04 |
| Financial debt/assets | | 0.06 | 0.04 | 0.03 |
| DEBT COVERAGE: | | | | |
| Debt coverage ratio EBIT / (interest costs + loans repaid in the current year) | ratio | 0.50 | 0.50 | 2.47 |
| Interest coverage ratio (EBIT / interest costs) | | 3.92 | 4.74 | 11.73 |
| MARGINS AND PROFITABILITY: | | | | |
| Return on equity | % | 0.47% | 0.85% | 2.16% |
| Return on assets (ROA) | % | 0.37% | 0.68% | 1.74% |
| Earnings per share | LTC/share | 1.5 | 2.7 | 6.9 |

EBITDA, NET PROFIT AND FINANCIAL LIABILITIES IN 2005-2007, MLTL



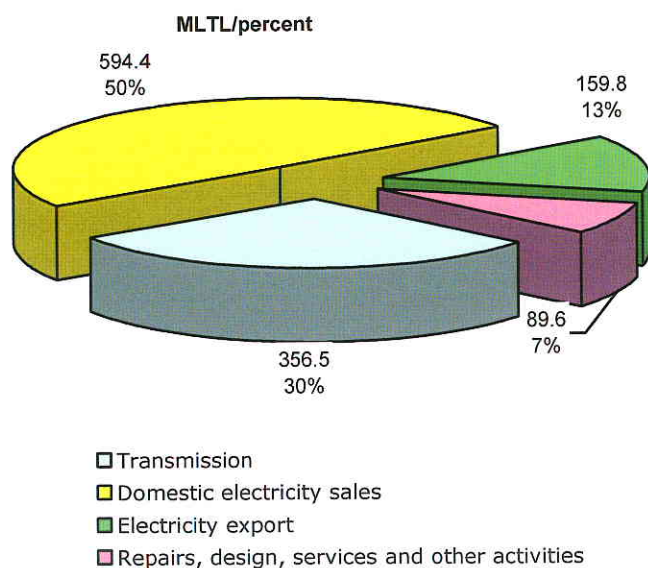
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INCOME AND EXPENSES

Income

In 2007, the sales revenues and other income of the Group amounted to MLTL 1,200.3, approximately 20% higher than in 2006. The increase in revenues was caused by the higher price of electricity under public service obligations and the higher price of exported electric energy.

STRUCTURE OF SALES REVENUES AND OTHER INCOME IN 2007:



The most significant part in the structure of revenue is represented by the sales of electricity in the domestic wholesale electricity market, i.e. 50% from total revenue. The Company earned MLTL 365.5 from the most important activity of the Company - the transmission system operator's functions, or 30% from the total revenue and as compared to 2006, the revenue for electricity transmission increased by 4.8% due to the higher volumes of the transmitted electricity and its higher price.

The revenue of the Kauno Energetikos Remontas UAB, including the sales to the group's companies, increased from MLTL 43.1 (in 2006) to MLTL 70.9 (in 2007) and was higher by 64.3 % than in 2006. The most significant portion of the services rendered and manufactured products by the company were realized in the domestic market (96%), export amounted to 4%, including services rendered and products realized in the Euro zone member-states - 1.5%, to other foreign countries - 2.5%. Services rendered to the holding company amounted to MLTL 5.2, and this made up only for 7.5%. Other main customers of this subsidiary were: Alstom Power Sweden AB - MLTL 22, Mažeikių Nafta AB - MLTL 10.3, Ekobana UAB - MLTL 5.6, Fabryka Kotlow Rafako S.A. - MLTL 3.6, Panevėžio Statybos Trestas AB - MLTL 3.2.

Energetikos Pajėgos UAB mainly rendered services to the Group companies. The revenues of this subsidiary amounted to MLTL 2.2. Kruonio Investicijos UAB did not earn revenues.

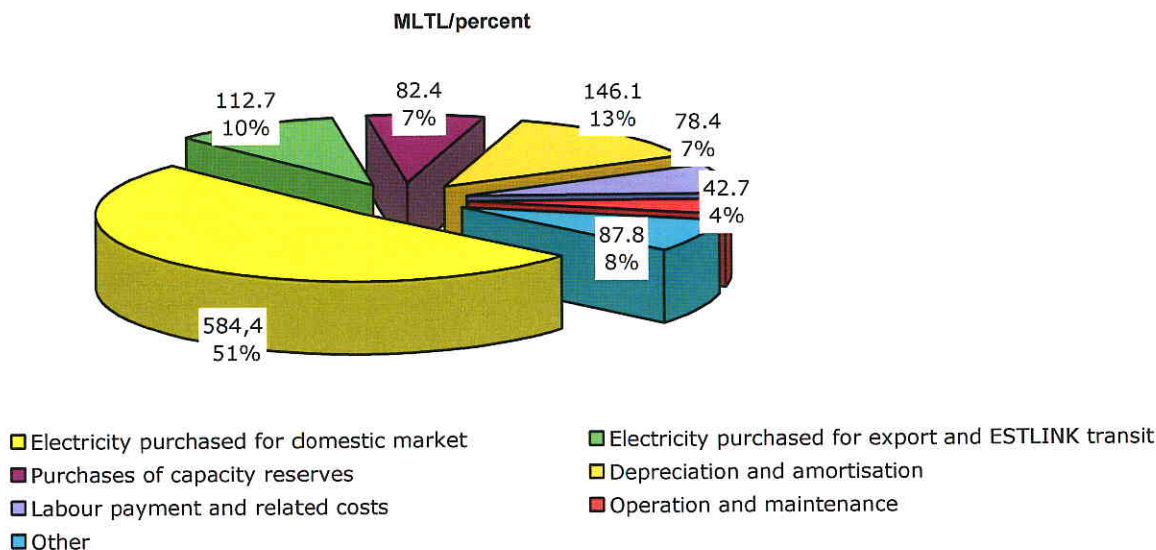
The Group revenues from other activities amounted to MLTL 23.5; the most part of this amount was earned for the information technologies and telecommunications services, including MLTL 11.9 earned for data transmission services.

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Expenses

IN 2007 THE EXPENSES INCURRED BY THE GROUP AMOUNTED TO MLTL 1,134.5.

STRUCTURE OF OPERATION EXPENSES IN 2007:



The biggest part of the expenses (MLTL 697.1 or 61%) were incurred for electricity purchases, including electricity under public service obligations. Depreciation and amortization expenses amounted to MLTL 146.1; the expenses for cold and operating reserve from other power plants amounted MLTL 82.4. The expenses incurred by Kauno Energetikos Remontas UAB and Energetikos Pajėgos UAB were insignificant to the total expenses of the Group – 5.8%. During 2007 the expenses per one LTL of revenue of Kauno Energetikos Remontas UAB group remained unchanged and amounted to LTL 0.98.

In 2007, as compared to 2006, the variable expenses of the Company (the expenses for electricity and reserve capacity purchases from producers) increased by 20% because of the higher price of electricity complying with public service obligations as well as higher export. Relatively fixed expenses of the Company dropped by approximately MLTL 5.

The Company has been increasing the efficiency of its operations consistently. As compared to 2002, i.e. from the date of the reorganization of the Company, the volume of the transmitted electricity per employee has increased by 22%, the length of operated lines - by 14%. The relatively fixed expenses (excluding depreciation, taxes, capacity reserve and transit services purchases) during the above mentioned period have increased by 21%; the number of employees did not increase (has dropped by 3%), the labor costs have increased in line with the trends prevailing on the domestic labor market, the costs of repair works have increased due to the increased prices of materials and services.

Profit

Under International Financial Reporting Standards, as adopted by the European Union (EU), in 2007 the profit before income tax of the Group amounted to MLTL 60.2, net profit amounted to MLTL 48.4, profit before interest, taxes, depreciation and amortisation (EBITDA) amounted to MLTL 211.8 (an increase of MLTL 22.8 during the year 2007).

The Company's net profit amounted to MLTL 47.4, net profit of Kauno Energetikos Remontas UAB group amounted to MLTL 1.4, Energetikos Pajėgos UAB – MLTL 0.12 (the profit of the subsidiaries includes revenue for services rendered inside the Group).

In 2007 the Company's profitability, as compared to the year 2006, improved: return on equity increased by 1.4%, return on assets – by 1%, profit before interest, taxes, depreciation and amortisation (EBITDA) increased by MLTL 22.1, or by approx. 12%.

The Company's profitability is not very high due to the specifics of its operations: main activities of the Company are regulated by setting the price for the electricity transmission service, the minimum rate of profit is included in the price; in 2005 – 2007 the increase of amortization and depreciation expenses due to the revaluation of assets at their fair value were not included in the price.

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Return on equity of the Kauno Energetikos Remontas UAB group increased by 3.1% and amounted to 4.7%. The EBITDA increased by MLTL 0.8 or 31%.

DEBTS AND LIABILITIES

In 2007 the Company did not enter into new loan agreements, and it used the existing credit lines and overdrafts to manage the short-term needs of cash. During the year 2007 Lietuvos Energija AB financial liabilities decreased by MLTL 24.1 and as of 31 December 2007 amounted to MLTL 89.8. Average interest rate on the Company's borrowings during the reported period was 4.42%.

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

The Company's reduced debts balance due to financial institutions decreased the debt ratio (financial liability/equity), thus the level of the Company's borrowings remained rather low. The major portion of the assets is financed by own capital which exceeded the total liabilities by four times. The coverage ratios of the loans and interest are significantly above 1, i.e. the Company's cash flows enable to settle financial liabilities.

Obligations under finance leases assumed by Kauno Energetikos Remontas UAB amounted to MLTL 0.12. Energetikos Pajėgos UAB and Kruonio Investicijos UAB had no financial liabilities to the banks.

PERSONNEL AND ENVIRONMENTAL PROTECTION

PERSONNEL

At the end of 2007 the Group employed 1,751 people – by 47 employees less than a year ago. Lietuvos Energija AB employees were 65% of the total number, Kauno Energetikos Remontas – 34%, Energetikos Pajėgos UAB – approx. 1%.

Despite the increased scope of the works, the number of employees at Lietuvos Energija AB decreased by 12 persons. In 2007 the statistical turnover of employees in the Company was approx. 7%, including retirements due to age, retirement due to recommendations of the medical commission, by terminating time-limited agreements, dismissals initiated by the employers. The real loss of employees when the employment agreement was terminated by the employee after he/she had found another job or due to other personal motives was about 3%.

The Company approximately 65% of employees are engineering and office staff, 35% are workers. More than 50% of employees have the university degree. About 70 persons were studying in various higher education institutions.

The essential factor predetermining the implementation of the Company's targets is the continuous and systematic improvement of the personnel's qualification. Lietuvos Energija AB enhances the competences of its employees in the following three areas: compulsory training (certifications, exams, training courses for obtaining licenses or permits to perform certain works), improvement of professional qualification (training within the limits of an employee's job responsibilities, related to modernisation of equipment or modification of technologies, etc.) as well as the enhancement of personal skills and business competence (seminars for the development of leadership, management skills, improvement of cooperation and communication capabilities, personal development). In 2007 the Company spent approximately MLTL 0.9 on the employees' qualification improvement (included in this amount more than MLTL 0.5 was spent for the compulsory training and improvement of professional qualification). Moreover, the specialists of the Company were given a possibility to gain experience in foreign electric power companies and to improve their qualification during the implementation of investment projects. The university studies were financed for 15 employees.

The number of employees of the group Kaunas Energetikos Remontas UAB has been continuously decreasing. Considerable intensive turnover of the employees resulted in the shortage of qualified labor force. The subsidiary employs 62% of workers and 38% of engineers and office staff. Kauno Energetikos Remontas UAB focuses on the qualification improvement of the personnel involved in the industrial processes related to the repair and maintenance technologies of turbines and electric equipment.

Lietuvos Energija AB and Kauno Energetikos Remontas UAB have the Collective Agreements signed between the employer and the employees' representatives. In addition to the mandatory guarantees prescribed by the legal acts of the Republic of Lithuania, additional guarantees are provided to the employees, including medical services, allowances on the occasion of personal anniversaries, when a child is born, support in the case of accident, additional vacation days are given for a certain number of years of working at the company, etc.

ENVIRONMENTAL PROTECTION

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 the environmental laws and standards, to implement preventive measures decreasing negative impact on the environment. The Company was not fined for the breach of the environmental protection requirements.

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WASTE MANAGEMENT

Waste management was organised by hiring specialised licensed companies. The main types of the hazardous waste are as follow: transformer oil and other waste resulting from the use of the oil (waste water contaminated with transformer oil, sludge collected in water treatment facilities and contaminated with oil products, quantities of oil which was not suitable for further use, emulsion of compressor oil and water, contaminated absorbents and wipers).

In 2007, 138 tones of hazardous waste were handed over for processing, 43 tones of reinforced concrete and porcelain insulator waste to be processed for production of break stone which is used in road construction, along with 229.3 tones of ferrous scrap metal and 2.9 tones of non-ferrous scrap metal. Sorting out of household waste was started for paper and cardboard waste handing over for recycling. In 2007 the expenses of the Company for the waste management amounted to LTL` 000 102.

WASTE WATER MANAGEMENT

Household waste water sources pollution were monitored according to the inspection schedules and other measures provided for in the integrated pollution prevention and control permit. Maintenance of rain water and household waste water treatment facilities (regeneration and replacement of filters, disposal of sludge, etc.) was performed along with the waste water control; these services were procured from the specialised companies.

In 2007 the operation of the sewerage water treatment facilities at full capacity of 40 m³/day was started operating in Kruonis Pumped Storage Plant, technological schemes and instructions required for waste water treatment were revised and adjusted, the computerised monitoring system for the operation of household waste water and industrial waste water treatment facilities was implemented; additional equipment for collection of oil products was installed in the main waste water outlet No.2.

In 2007 the expenses for waste water treatment amounted to LTL` 000 178.

PREVENTIVE MEASURES TO ENSURE SAFE ENVIRONMENT

Calculations of emissions from stationary and mobile pollution sources, stocktaking of taxable packing materials and chemical substances were performed. The environmental protection requirements were set for the undertaken investment projects: the environmental impact assessment was ordered for the designed electricity transmission lines, the contractors were obliged to handle the construction waste. The surrounding territory of the spillway of Kaunas Hydro Power Plant was fenced and video monitoring equipment was installed to control poachers. The storage facilities for hazardous chemical substances were constructed at Panevėžys transformer substation, a part of 110kV overhead lines (2,500 m) were replaced with underground cables.

REFERENCES AND ADDITIONAL EXPLANATIONS ABOUT DATA 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 2007.

SIGNIFICANT EVENTS AFTER THE END OF THE PREVIOUS FINANCIAL YEAR

At 20 December 2007 the extraordinary general shareholders meeting of Geoterma UAB was held and there it was decided to reduce the share capital of Geoterma UAB from LTL 18,652,350 to LTL 8,405,910 by voiding 1,024,644 ordinary shares with par value of LTL 10 (ten) each and thus to settle accumulated losses in the balance sheet. At the same time it was decided to increase share capital of this company from LTL 8,405,910 to LTL 21,305,910 by additional contributions, i.e. by issuing 1,290,000 ordinary shares with par value of LTL 10 (ten) each. Lietuvos Energija AB acquired 302,423 shares and paid LTL 3,024,230.

At 1 February 2008, the Law No.X-1446 on revision and amendment of the Law of the Republic of Lithuania on the Nuclear Power Plant, Articles 8, 10, 11, 20 was adopted, which stipulates the establishment of a national investor for the new nuclear power plant project not on the basis of Lietuvos Energija AB, as it was stipulated in the previous law, but on the basis of a new holding company.

At 12 February 2008 CEOs of electricity transmission system operators Lietuvos Energija and PSE Operator (Poland) signed a shareholders agreement on joint venture, which will implement the interconnection project of Lithuanian and Polish power systems. Lietuvos Energija and PSE Operator will each own 50% of the joint venture shares. It is projected that the joint venture will first prepare a technical project, revise and approve routes of the new power lines, conduct an environmental impact assessment, other preparatory works. The newly established joint venture will be managed by a Lithuanian representative. The company will be registered in Poland, Warsaw. It will start its operations in April, 2008.

Lietuvos Energija AB and Swedish transmission system operator Svenska Kraftnät completed a feasibility study for the interconnection of Lithuanian and Swedish grids. The results of the study showed that on the basis of the analysed technical, economic and legal aspects the interconnection of the systems is feasible and would be justified from the economic point of view.

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PLANS AND FORECASTS FOR THE GROUP'S OPERATIONS

At 1 February 2008, the Law No.X-1446 on revision and amendment of the Law of the Republic of Lithuania on the Nuclear Power Plant, Articles 8, 10, 11, 20 was adopted, which stipulates the establishment of a new holding company LEO LT. Thus the direct owner of the controlling interest of the Company might change from the state to a private legal person (LEO LT), however the state will maintain the ultimate control by holding controlling package of the shares of the private legal person – holding company LEO LT; hence the direct control executed by the state will be changed into the indirect state control. In preparing the forecasts of operations for the year, the assumption was made that in 2008 Lietuvos Energija will continue the operations carried out in 2007: will perform the functions of the transmission system operator, the market operator, will produce and export electric energy, will provide the services of information technologies and telecommunications.

In October 2007 the Board of the Company approved the financial plan of the Company's operations for the year 2008. It is projected that the Company's financial performance will remain at the level of 2007.

In 2008 the borrowings to refinance the loans and to finance the needs of the working capital will reach approximately MLTL 18; it is planned to repay approximately MLTL 41 to the banks (without taking into consideration the drawing or repayment of the credit lines for management of short-term needs of cash).

It is projected to allocate MLTL 179 for investments, including MLTL 69 allocated for the construction and reconstruction of substations of the transmission grid and the implementation of new technologies; MLTL 74 will be allocated for the rehabilitation of the power plants. It has been planned to use MLTL 159 of the Company's own funds to finance the investments, MLTL 20 will be covered by clients or by EU financial support.

The subsidiaries also project that their performance will be at least of the level of 2007. Kauno Energetikos Remontas UAB intends to allocate MLTL 4.7 for investments in modern technological equipment of repairs and reconstruction of energy facilities, metal structures, pressurised vessels, various tanks and reservoirs. Other subsidiaries do not plan any significant investments.

INFORMATION ON RESEARCH AND DEVELOPMENT

With the 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 2007 the value of continued or started new research works amounted to MLTL 2.7.

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

- The impact of the changes in the grid and power plants on the electric power system was assessed, and on the basis of this assessment the regulations on the use of automation equipment for accident prevention in the electric power system were updated, the „black start“ plan of the electric power restoration after the complete black-out was revised, the technical requirements for the island operation of the system were set;
- The analysis of technical reliability and economic evaluation of investments in replacing certain parts of the 110 kV overhead lines was performed and the methodological instructions for the replacement of the overhead lines by underground cables were drawn;
- The feasibility of the implementation of the identification system for the origin of the electric energy in Lithuania was examined by comprehensively evaluating all identification requirements set forth in the EU and national legislation;
- The requirements set forth in the National Energy Strategy for the reliability of supply, quality, efficiency, consumption, management and environmental protection were analysed and the study on the long-term power system development was completed.
- New categories of works have been undertaken by Kauno Energetikos Remontas UAB: installation of electric and automation systems, erection and mounting of constructions.

THE NUMBER AND NOMINAL VALUE OF THE PARENT COMPANY'S SHARES HELD BY THE COMPANY, BY ITS SUBSIDIARIES OR PERSONS ACTING ON THEIR BEHALF, BUT IN THEIR OWN NAME.

The Company has not acquired its own shares. The subsidiaries have not acquired any shares of the Company.

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OTHER INFORMATION ABOUT THE COMPANY

THE STRUCTURE OF THE COMPANY'S SHARE CAPITAL

As of 21 February 2002, LTL 689,515,435 share capital of Lietuvos Energija AB was registered in the Register of Companies; it was divided into 689,515,435 registered shares with the par value of one Litas each. All the shares are fully paid.

All shares of the Company are ordinary registered shares of a single class granting equal rights to their owners (shareholders).

The ordinary registered share grants its owner (a shareholder) the following property rights:

- Receive a part of the Company's profit (dividend);
- Receive a part of the property of the Company under liquidation;
- Receive the shares for free if the authorised capital has been increased from the Company's funds, except the cases provided otherwise in the Law on Public Limited Liability Companies of the Republic of Lithuania.
- Acquire the newly issued shares or convertible debenture bonds of the Company by the right of priority, except the case when the General Shareholders Meeting, abiding by the Law on Public Limited Liability Companies of Lithuania, resolves not to grant to all shareholders the priority right to acquire the shares issued by the Company.
- Issue borrowings to the Company by the methods prescribed in the Laws; however, the Company when taking such borrowings from the shareholders has no right to pledge its assets to the shareholders. When the Company takes borrowings from the shareholders, the interest rate shall not exceed the average interest rates of commercial banks located in the Lenders' place of residence or place of business at the moment of signing the loan agreement. In such cases it shall not be permitted to reach agreement between the Company and the shareholder on higher interest rates.
- Transfer all the shares or a part thereof to the ownership of other persons;
- Request from other shareholders a mandatory selling of their shares or a mandatory buying of their shares abiding by the procedure set forth by the Law on the Securities Market.
- Other property rights set forth in the Laws.

The ordinary registered share grants its owner (shareholder) the following personal non-property rights:

- Attend the meetings of shareholders;
- Vote at the general shareholders meeting in accordance with the rights granted by the shares. One ordinary registered share shall grant one vote;
- Obtain information on the Company's activity to the extent defined by the Laws.
- File claims to the court to compensate damages to the company incurred because of the effectuated duties and obligations of the Chief Executive Officer or the members of the Board or because of their failure to do so, as well as in other cases prescribed by the Laws.
- Other non-property rights as prescribed by the Laws.

THE NUMBER OF ACQUIRED AND TRANSFERRED OWN SHARES DURING THE REPORTED PERIOD, THEIR NOMINAL VALUE AND THE PART OF THE SHARE CAPITAL REPRESENTED BY SUCH SHARES

During the reporting period the Company did not acquire or transfer its own shares.

ALL RESTRICTIONS ON THE TRANSFER OF SECURITIES

Not applicable

THE SHAREHOLDERS

Total number of shareholders – 5,549. The shareholders as of 31 December 2007 holding more than 5% of Lietuvos Energija AB share capital (LTL 689,515,435):

| Title | Type of shares | Amount of shares | Portion of share capital (%) | Portion of votes granted by the share capital (%) |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------|------------------|------------------------------|---------------------------------------------------|
| The state represented by the Ministry of Economy of the Republic of Lithuania, Code 188621919, Gedimino pr.38/2, LT-01104 Vilnius | Ordinary registered shares | 665,400,833 | 96.50 | 96.50 |

SHAREHOLDERS HAVING SPECIAL RIGHTS TO EXECUTE CONTROL AND DESCRIPTION OF THESE RIGHTS

Not applicable

ALL RESTRICTIONS ON VOTING RIGHTS

Not applicable

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ALL AGREEMENTS AMONG THE SHAREHOLDERS WHICH ARE KNOWN TO THE ISSUER AND WHICH MAY IMPOSE RESTRICTIONS ON THE TRANSFER OF SECURITIES AND (OR) VOTING RIGHTS.

Not applicable

INFORMATION ABOUT THE COMPANY'S BRANCHES AND REPRESENTATION OFFICES

As of 31 December 2007 the Company had two branches: Kaunas Hydro Power Plant and Kruonis Pumped Storage Power Plant. The branches are operating in line with the regulations of a respective branch approved by the Board of the Company.

EMPLOYEES (THE AVERAGE NUMBER OF EMPLOYEES, CHANGES DURING THE REPORTED FINANCIAL YEAR, THE REASONS WHICH CAUSED THE BIGGEST CHANGE (OVER 10 PERCENT), GROUPING OF EMPLOYEES ACCORDING TO THEIR EDUCATIONAL BACKGROUND, NUMBER OF MANAGERS, SPECIALISTS, WORKERS, PRE-TAX AVERAGE MONTHLY SALARY OF A RESPECTIVE GROUP OF EMPLOYEES, SPECIAL RIGHTS OR RESPONSIBILITIES OF THE ISSUER'S EMPLOYEES OR A PART THEREOF SET FORTH IN THE EMPLOYMENT CONTRACTS OR IN THE COLLECTIVE AGREEMENT)

CHANGES IN THE AVERAGE NUMBER OF EMPLOYEES DURING THE LAST THREE FINANCIAL YEARS

As of 31 December 2005, 2006, 2007 Lietuvos Energija AB employed:

| | 31 December 2005 | 31 December 2006 | 31 December 2007 |
|------------------------------------------|------------------|------------------|------------------|
| Total number of employees | 1,134 | 1,142 | 1,130 |
| including: | | | |
| - power plants | 292 | 295 | 277 |
| - head office and transmission divisions | 842 | 847 | 853 |

Employees by the type of their job (as of 31 December 2007):

Engineering and office staff - 65%

Workers - 35 %

Average number of employees and salary in Lietuvos Energija AB:

| | 2005 | | 2006 | | 2007 | |
|------------------------------|-----------------------------|----------------------|-----------------------------|----------------------|-----------------------------|----------------------|
| | Average number of employees | Average salary (LTL) | Average number of employees | Average salary (LTL) | Average number of employees | Average salary (LTL) |
| Workers | 432 | 1,723 | 418 | 1,974 | 399 | 2,107 |
| Engineering and office staff | 674 | 2,905 | 694 | 3,144 | 699 | 3,412 |
| Executives | 6 | 15,094 | 6 | 16,367 | 6 | 19,203 |
| Total | 1,112 | 2,446 | 1,118 | 2,776 | 1,104 | 3,025 |

Education of Lietuvos Energija AB employees by groups at the end of the reporting period:

| | 2005 | 2006 | 2007 |
|--------------------------------|-------|-------|-------|
| Number of employees | 1,134 | 1,142 | 1,130 |
| By educational background: | | | |
| University degree | 541 | 569 | 579 |
| Secondary education | 274 | 267 | 255 |
| Collage degree | 306 | 282 | 275 |
| Unfinished secondary education | 13 | 24 | 21 |

PROCEDURE FOR AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION

Excluding the cases prescribed by the Law on Public Limited Liability Companies of the Republic of Lithuania, the Company's Articles of Association are amended abiding by the resolution of the General Shareholders Meeting passed according to the procedure set forth in the Laws. When the General Shareholders Meeting passes a resolution regarding amendment of the Articles of Association, the complete wording of the amended Articles of Association has to be written and they are signed by the representative authorised by the General Shareholders Meeting.

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THE COMPANY'S MANAGEMENT BODIES (THE POWERS DELEGATED TO THEM, THE PROCEDURE FOR APPOINTMENT AND REPLACEMENT OF THEIR MEMBERS)

The Company's management bodies are as follows:

- General Shareholders meeting;
- Supervisory Council;
- Board;
- Chief Executive Officer.

The competencies of the General Shareholders Meeting do not differ from those prescribed by the Law on Public Limited Liability Companies.

The Supervisory Council of the Company is a collegiate body, directed by the Chairman. The Supervisory Council is elected by the General Shareholders Meeting for a four-year period and comprises 5 members.

The number of tenures of the members of the Supervisory Council is unlimited. A member of the Company's Board, the Chief Executive Officer, the head of the Company's subsidiaries, the head of the holding company or a person who according to the Laws of the Republic of Lithuania has no right to hold this office have no right to be the member of the Supervisory Council. The Chairman of the Supervisory Council is elected by the members of the Supervisory Council among themselves.

The Supervisory Council appoints the members of the Board and releases them from the office, supervises the activity of the Company's Chief Executive Officer and the Board; presents to the General Shareholders Meeting its proposals and comments on the Company's strategy, annual financial statements of the Company, projections on profit allocation and report on the operations of the Company as well as on the activity of the Board and the Chief Executive Officer; solves other issues prescribed by these Articles of Association and resolutions of General Shareholders Meetings to the competence of the Supervisory Council related to the supervision of the Company and its management bodies.

The working procedure of the Supervisory Council is established by the regulations of the Supervisory Council adopted by it. The procedure for revoking the Supervisory Council, procedure for convening its meetings and voting therein as well as other issues related to the activity of the Supervisory Council and the decisions made by it are regulated by the Civil Code and the Law on Public Limited Liability Companies of the Republic of Lithuania.

The Board of the Company is a collegiate body, the activities of which are directed by the Chairman. The Board of the Company is formed of 7 (seven) persons. The members of the Board are appointed by the Supervisory Council for a 4 (four) year- period. The members of the Board elect a Chairman among themselves. The number of tenures of the members of the Board is not limited.

The Board of the Company considers and approves the strategy of operations of the Company and solves other issues of the Company's management assigned to its competence by the Articles of Association.

The Board appoints and revokes the Chief Executive Officer of the Company (the General Director), fixes his remuneration, other terms and conditions of the employment agreement, approve his job regulations, set incentives and impose penalties.

The Board analyses and approves the material presented by the Company's Chief Executive Officer regarding the implementation of the Company's strategy; organisation of the Company's operations; financial status of the Company; results of operations, etc.

The Board timely organizes the General Meetings of Shareholders, draws the shareholders' lists, draft their agenda, submits to the shareholders the documents of annual financial statements, draft profit distribution, draft resolutions, report on the Company's activity and other required information for consideration of the issues on agenda.

The Supervisory Council may revoke the entire Board or its individual members prior to the expiration of their tenure. A member of the Board may resign from office prior to the expiration of his tenure upon a written notification thereof to the Board, submitted not later than 14 (fourteen) calendar days in advance. The working procedure of the Board complies with the working regulations adopted by the Board.

The procedure for convening the sittings of the Board and the procedure of voting therein as well as other issues related to the activity of the Board and the decisions made by the Board is regulated by the Law on Public Limited Liability Companies and the Civil Code of the Republic of Lithuania.

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The Chief Executive Officer of the Company is its General Director, who within the limits of power delegated to him, organizes current economic activity of the Company and performs other functions prescribed by the laws or the Articles of Association. The General Director is appointed and released, the employment agreement is made with him and the procedure for remuneration, incentives and penalties is established by the Board. The General Director is responsible for drawing the financial statements, provision of data and documents in the cases prescribed by the Laws, announcement of material events, headcount of the Company's shareholders; he fulfils other responsibilities established by the Laws, the Articles of Association and job regulations.

The authority of the Directors, who in accordance with the management structure of the Company are directly subordinate to the General Director and are responsible for the Company's operations in the specific areas within the Company's control, to enter into transactions on behalf of the Company, are defined in the work regulations of the Company's administration or in the authorizations issued by the Company.

MEMBERS OF THE COLLEGIAL MANAGEMENT BODIES, CHIEF EXECUTIVE OFFICER, CHIEF FINANCIER

| POSITION | NAME, SURNAME | COMMENCEMENT DATE | EXPIRATION DATE | NUMBER OF THE ISSUER'S SHARES HELD BY HIM/HER |
|---------------------|-------------------------|-------------------|-----------------|-----------------------------------------------|
| Supervisory Council | | | | |
| Chairman | Anicetas Ignotas | 2002-01-30 | 2008-04-29 | - |
| Member | Saulius Spėčius | 2001-10-01 | 2008-04-29 | - |
| Member | Nijolė Bujauskienė | 2004-04-29 | 2008-04-29 | - |
| Member | Genovaitė Geleževičienė | 2004-04-29 | 2008-04-29 | - |
| Member | Petras Urbonas | 2004-04-29 | 2008-04-29 | - |
| Board | | | | |
| Chairman | Jurgis Vilemas | 2000-02-14 | 2009-05-31 | - |
| Member | Rymantas Juozaitis | 2002-02-07 | 2009-05-31 | 306,318 (0.0444 %) |
| Member | Algimantas Zaremba | 2001-10-09 | 2009-05-31 | - |
| Member | Vida Dzermeikienė | 2002-08-06 | 2009-05-31 | - |
| Member | Dominikas Pečiulis | 2004-11-08 | 2009-05-31 | - |
| Member | Marijus Franckevičius | 2004-11-08 | 2009-05-31 | - |
| Management Board | | | | |
| General Director | Rymantas Juozaitis | 2002-02-08 | - | 306,318 (0.0444 %) |
| Chief Financier | Sigitas Baranauskas | 1998-07-27 | - | - |

Information on total and average amounts of remuneration, bonuses and other payments from profit calculated by the Company during the reported period

| | SALARIES FOR JANUARY-DECEMBER 2007 (LTL) | ANNUAL BONUS FOR THE RESULTS OF 2006 (LTL) | BONUSES FOR 2006 (LTL) | DIVIDENDS FOR 2006 (LTL) | TOTAL (LTL) |
|----------------------------------------------------------|------------------------------------------|--------------------------------------------|------------------------|--------------------------|-------------|
| Average per member of the Board | - | - | 11,666 | - | 11,666 |
| Totally to all members of the Board | - | - | 70,000 | - | 70,000 |
| Average per member of the Company's Management Board | 197,066 | 17,732 | 21,000 | 2,556 | 238,364 |
| Totally to all members of the Company's Management Board | 394,132 | 35,465 | 21,000 | 2,566 | 453,163 |

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ALL SIGNIFICANT AGREEMENTS WHERE THE COMPANY IS THE COUNTERPARTY, AND WHICH WOULD COME INTO EFFECT, WOULD BE AMENDED OR TERMINATED IN THE CASE OF CHANGES IN THE COMPANY'S CONTROL, AS WELL AS THEIR IMPACT, EXCLUDING THE CASES WHEN DUE TO THE NATURE OF THESE AGREEMENTS THEIR DISCLOSURE COULD CAUSE SIGNIFICANT DAMAGE TO THE COMPANY

AB SEB bank has the right to terminate the Loan Agreement with Lietuvos Energija AB dated 28 August 2002 in the case when the number of Lietuvos Energija AB shares held by the Government of Lithuania becomes less than 51 percent.

ALL AGREEMENTS AMONG THE COMPANY AND THE MEMBERS OF ITS MANAGEMENT BODIES OR EMPLOYEES PROVIDING FOR COMPENSATION IN THE CASE OF THEIR RESIGNATION OR DISMISSAL WITHOUT A JUSTIFIED REASON OR IN THE CASE OF TERMINATION OF THEIR EMPLOYMENT DUE TO THE CHANGES IN THE COMPANY'S CONTROL.

There are no agreements of this type.

SIGNIFICANT RELATED PARTY TRANSACTIONS

There are no such transactions.

INFORMATION REGARDING COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Information about the implementation of the provisions of the Corporate Governance Code is enclosed hereto.

DATA ABOUT PUBLICLY DISCLOSED INFORMATION

In 2007 the Company published the following notices about the material events:

- 2007-01-17 Preliminary dates of publishing Lietuvos Energija AB operations results in 2007;
- 2007-02-15 Preliminary unaudited results of Lietuvos Energija AB operations for the year 2006;
- 2007-03-23 Convocation notice for the General Shareholders meeting;
- 2007-03-26 Proposal of the Board to the shareholders meeting concerning payment of dividends;
- 2007-04-06 Audited results of operations of Lietuvos Energija AB for the year
- 2007-04-16 Audited financial statements for the year 2006;
- 2007-04-16 Draft Resolutions of General Shareholders Meeting Scheduled for 26 April 2007;
- 2007-04-26 The General Shareholders Meeting was held as of 26 April 2007;
- 2007-04-27 Lietuvos Energija AB: Performance for Q1 2007;
- 2007-05-29 Annual Report- Prospectus for the year 2006;
- 2007-05-29 Dissemination of Annual Report- Prospectus for the year 2006;
- 2007-05-31 Lietuvos Energija AB interim financial statements for Q1 2007
- 2007-06-22 Lietuvos Energija AB lost the shares of liquidated associate company DC Baltija.
- 2007-07-30 Lietuvos Energija AB: Performance for the H1 2007
- 2007-08-31 Consolidated financial statements and interim reports for the H1 2007
- 2007-09-18 Revised prospectus for the year 2006.
- 2007-10-23 Notices on the transactions of the company's CEOs.
- 2007-10-26 Convocation of the extraordinary general shareholders meeting
- 2007-10-31 A nine-month result of operations for the year 2007
- 2007-11-16 Draft resolutions of the extraordinary general shareholders meeting to be convened as of 26 November 2007
- 2007-11-23 Revised interim information for the H1 2007
- 2007-11-27 Regarding the extraordinary general shareholders meeting
- 2007-11-29 As of 29 November 2007 the Board of Lietuvos Energija AB approved the revised draft prices and tariffs for electricity transmission service as well as the procedure of their application.
- 2007-11-30 A nine-month interim financial statements of Lietuvos Energija AB for the year 2007
- 2007-12-03 The NCCPE announced Lietuvos Energija AB prices, tariffs and the procedure of their application
- 2007-12-14 Convocation of the repeated general shareholders meeting
- 2007-12-22 Acquisition of Geoterma UAB shares
- 2007-12-22 The repeated general shareholders meeting took place as of 22 December 2007.

All information about the essential events published in 2007 is available on the website of Vilnius Stock Exchange www.baltic.omxgroup.com/market/?pg=news and on the website of the Company www.lietuvosenergija.lt. The Company's notices are published in the daily papers Lietuvos Rytas and Respublika.

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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 the Trade Rules of the public limited liability 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 |
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| 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 | This provision is new in the Company's practice, therefore presently the Company does not 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 | This provision is new in the Company's practice; therefore 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 | This provision is new in the Company's practice, therefore 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 narrower sense 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, counseling 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 narrower sense than it is recommended in the Code. |

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| PRINCIPLES/ RECOMMENDATIONS | | COMMENTARY |
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| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | NO | 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 narrower sense 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. | 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. | NO | The Company has no established practices yet in the formation of committees in the collegial bodies of the Company. |

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| PRINCIPLES/ RECOMMENDATIONS | | COMMENTARY |
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| 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. | | |
| 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. | NO | The Company has no established practices yet in the formation of committees in the collegial bodies of the Company. |

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| PRINCIPLES/ RECOMMENDATIONS | | COMMENTARY |
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| <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p> | | |
| <p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p> | NO | The Company has no established practices in disclosure of respective information |
| <p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p> | NO | The transactions' criteria to be approved by the shareholders meeting are not set forth either in the Law on Public Limited Liability Companies or by the Articles of Association of the Company |
| <p>6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p> | NO | The Company has no established practices yet in disclosure of respective information |
| <p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.</p> | NO | The Company has no established practices yet to vote in general meetings via terminal equipment of telecommunications |
| <p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.</p> | NO | The Company has no established practices yet in disclosure of respective information |
| <p>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.</p> | NO | The Company has no established practices yet in disclosure of respective information |

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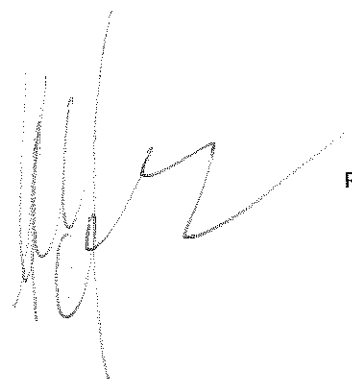
| PRINCIPLES/ RECOMMENDATIONS | | COMMENTARY |
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| 8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient 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; however, the remuneration statement should not contain any information which is not to be disclosed from the commercial point of view. | 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. Moreover, 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 |
| 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 of 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 |

**CONSOLIDATED ANNUAL REPORT
 FOR THE YEAR ENDED 31 DECEMBER 2007**

| PRINCIPLES/ RECOMMENDATIONS | | COMMENTARY |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|--------------------------------------------------------------------------------------|
| <p>8.9 The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 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. <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p> | | |
| <p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p> | | |
| <p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p> | | |
| <p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p> | | |
| <p>10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p> | NO | The Company has no established practices yet in disclosure of respective information |

Lietuvos Energija AB General Director

21 March 2008



Rymantas Juozaitis

**BALANCE SHEETS
AS OF 31 DECEMBER 2007**

All amounts are in LTL thousand, unless stated otherwise

| | Notes | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|------------------------------------------------------------|-------|------------------|------------------|------------------|------------------|
| ASSETS | | | | | |
| Non-current assets: | | | | | |
| Intangible assets | 4 | 5,105 | 5,003 | 6,822 | 6,751 |
| Property, plant and equipment | 5 | 2,569,054 | 2,544,042 | 2,548,338 | 2,522,033 |
| Investments in subsidiaries | 6 | - | 34,116 | - | 31,755 |
| Investments in associates | 6 | 21,040 | 20,625 | 21,172 | 21,172 |
| Accounts receivable | 7 | 1,978 | 1,978 | 7,792 | 7,792 |
| Other financial assets | | 50 | 15 | 344 | 309 |
| Total non-current assets | | 2,597,227 | 2,605,779 | 2,584,468 | 2,589,812 |
| Current assets: | | | | | |
| Inventories | 8 | 12,838 | 6,144 | 12,702 | 6,393 |
| Prepayments | | 2,772 | 2,137 | 2,613 | 2,353 |
| Trade receivables | 9 | 121,370 | 105,067 | 95,774 | 88,125 |
| Other receivables | 10 | 11,805 | 11,485 | 9,088 | 8,990 |
| Other assets | | 3 | - | 686 | 678 |
| Term deposits | 11 | 150 | - | 150 | - |
| Cash and cash equivalents | 12 | 18,318 | 14,566 | 4,788 | 1,357 |
| Total current assets | | 167,256 | 139,399 | 125,801 | 107,896 |
| TOTAL ASSETS | | 2,764,483 | 2,745,178 | 2,710,269 | 2,697,708 |
| 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 | 70,730 | 68,952 | 70,407 | 68,952 |
| Other reserves | 15 | 1,404,786 | 1,402,660 | 1,394,560 | 1,392,429 |
| Retained earnings | | 47,335 | 48,911 | 17,651 | 18,385 |
| Foreign currency translation reserve | | (2) | - | (6) | - |
| Equity attributable to equity holders of the Parent | | 2,212,367 | 2,210,041 | 2,172,130 | 2,169,284 |
| Minority interest | | 2 | - | 1 | - |
| Total equity | | 2,212,369 | 2,210,041 | 2,172,131 | 2,169,284 |
| Non-current liabilities: | | | | | |
| Borrowings | 16 | 61,903 | 61,903 | 70,440 | 70,440 |
| Issued bonds | 18 | 25,896 | 25,896 | 25,896 | 25,896 |
| Obligations under finance leases | 17 | - | - | 119 | - |
| Grants | 19 | 50,871 | 50,819 | 24,340 | 24,265 |
| Deferred income tax liabilities | 21 | 208,486 | 208,129 | 220,034 | 219,622 |
| Total non-current liabilities | | 347,156 | 346,747 | 340,829 | 340,223 |
| Current liabilities: | | | | | |
| Borrowings | 16 | 2,022 | 2,022 | 20,581 | 20,581 |
| Obligations under finance leases | 17 | 118 | - | 263 | - |
| Current income tax liabilities | | 4,237 | 4,104 | 1,334 | 1,287 |
| Trade and other payables | 20 | 198,581 | 182,264 | 175,131 | 166,333 |
| Total current liabilities | | 204,958 | 188,390 | 197,309 | 188,201 |
| Total liabilities | | 552,114 | 535,137 | 538,138 | 528,424 |
| TOTAL EQUITY AND LIABILITIES | | 2,764,483 | 2,745,178 | 2,710,269 | 2,697,708 |

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

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007
 All amounts are in LTL thousand, unless stated otherwise

| | Notes | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---------------------------------------------------|-------|---------------|-----------------|---------------|-----------------|
| Sales | 22 | 1,176,806 | 1,110,718 | 980,266 | 938,906 |
| Operating expenses | 22 | (1,110,799) | (1,046,368) | (946,251) | (906,003) |
| GROSS PROFIT | | 66,007 | 64,350 | 34,015 | 32,903 |
| Other operating income | 23 | 23,455 | 22,350 | 21,805 | 21,333 |
| Other operating expenses | 24 | (23,708) | (22,254) | (26,932) | (26,132) |
| Other gains (losses), net | 25 | (530) | (698) | 106 | (1,739) |
| OPERATING PROFIT | | 65,224 | 63,748 | 28,994 | 26,365 |
| Finance income | | 542 | 467 | 683 | 618 |
| Finance costs | | (5,428) | (5,410) | (5,256) | (5,234) |
| Net results (loss) of associates | | (132) | - | (1,960) | - |
| PROFIT BEFORE INCOME TAX | | 60,206 | 58,805 | 22,461 | 21,749 |
| Income tax expense | 21 | (11,818) | (11,454) | (3,756) | (3,388) |
| NET PROFIT | | 48,388 | 47,351 | 18,705 | 18,361 |
| ATTRIBUTABLE TO: | | | | | |
| Equity holders of the Parent | | 48,387 | 47,351 | 18,705 | 18,361 |
| Minority interest | | 1 | - | - | - |
| | | 48,388 | 47,351 | 18,705 | 18,361 |
| Basic and diluted earnings per share (LTL) | 27 | 0.07 | 0.07 | 0.03 | 0.03 |

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in LTL thousand, unless stated otherwise

| Group | Notes | Share capital | Share premium | Legal reserve | Other reserves (note 15) | Retained earnings | Foreign currency translation reserve | Equity attributable to equity holders of the Parent | Minority interest | Total |
|------------------------------------------------------------------|-------|----------------|---------------|---------------|--------------------------|-------------------|--------------------------------------|-----------------------------------------------------|-------------------|------------------|
| Balance as of 31 December 2005 | | 689,515 | 3 | 69,355 | 102,503 | 1,300,155 | (5) | 2,161,526 | 1 | 2,161,527 |
| Dividends | 28 | - | - | - | (8,100) | (8,100) | - | (8,100) | - | (8,100) |
| 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 | - | 18,705 | - | 18,705 |
| Exchange difference arising on translation of foreign operations | - | - | - | - | - | - | (1) | (1) | - | (1) |
| Balance as of 31 December 2006 | | 689,515 | 3 | 70,407 | 1,394,560 | 17,651 | (6) | 2,172,130 | 1 | 2,172,131 |
| Dividends | 28 | - | - | - | (8,154) | (8,154) | - | (8,154) | - | (8,154) |
| Transfer to reserves | 15 | - | - | 325 | 12,386 | (12,711) | - | - | - | - |
| Reserves used | 15 | - | - | (2) | (2,160) | 2,162 | - | - | - | - |
| Net profit for the period | - | - | - | - | - | 48,387 | - | 48,387 | 1 | 48,388 |
| Exchange difference arising on translation of foreign operations | - | - | - | - | - | - | 4 | 4 | - | 4 |
| Balance as of 31 December 2007 | | 689,515 | 3 | 70,730 | 1,404,786 | 47,335 | (2) | 2,212,367 | 2 | 2,212,369 |

(Continued)

LIETUVOS ENERGIJA AB
Company code 220551550, Žvejų g. 14, LT-09310 Vilnius

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

All amounts are in LTL thousand, unless stated otherwise

| Company | Notes | Share capital | Share premium | Legal reserve | Other reserves (note 15) | Retained earnings | Total |
|----------------------------------------------|-------|----------------|---------------|---------------|--------------------------|-------------------|------------------|
| Balance as of 31 December 2005 | | 689,515 | 3 | 68,952 | 100,384 | 1,300,169 | 2,159,023 |
| Dividends | 28 | - | - | - | - | (8,100) | (8,100) |
| Transfer to reserves | 15 | - | - | - | 1,295,569 | (1,295,569) | - |
| Reserves used | 15 | - | - | - | (3,524) | 3,524 | - |
| Net profit for the period | | - | - | - | - | 18,361 | 18,361 |
| Balance as of 31 December 2006 | | 689,515 | 3 | 68,952 | 1,392,429 | 18,385 | 2,169,284 |
| Dividends | 28 | - | - | - | - | (8,154) | (8,154) |
| Transfer to reserves | 15 | - | - | - | 12,231 | (12,231) | - |
| Reserves used | 15 | - | - | - | (2,000) | 2,000 | - |
| Net profit for the period | | - | - | - | - | 47,351 | 47,351 |
| Revaluation of property, plant and equipment | 6 | - | - | - | 1,560 | - | 1,560 |
| Disposal of property, plant and equipment | 6 | - | - | - | (1,560) | - | - |
| Balance as of 31 December 2007 | | 689,515 | 3 | 68,952 | 1,402,660 | 48,911 | 2,210,041 |

(Concluded)

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

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007**
All amounts are in LTL thousand, unless stated otherwise

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|--------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|
| Cash flows from / (to) operating activities | | | | |
| Net profit | 48,388 | 47,351 | 18,705 | 18,361 |
| Adjustments for non-cash expense (income) items and other adjustments | | | | |
| Depreciation and amortization | 147,552 | 145,624 | 161,558 | 159,614 |
| Change in deferred income tax liabilities | (11,547) | (11,493) | (15,589) | (15,536) |
| Reversal of provisions | - | - | (1,521) | (1,521) |
| Impairment of assets | 1,335 | 1,796 | 6,029 | 7,897 |
| Share of loss of associates | 132 | - | 1,960 | - |
| Income and social tax expense | 23,365 | 22,947 | 19,345 | 18,924 |
| Income from grants | (1,529) | (1,504) | (999) | (976) |
| (Profit) loss from disposal of non-current assets (excluding financial assets) | 1,123 | 1,249 | 3,348 | 3,400 |
| - Dividends | - | (413) | - | (208) |
| - Foreign currency exchange loss, net | 380 | 373 | 92 | 83 |
| - Finance costs | 5,428 | 5,410 | 5,256 | 5,234 |
| - Finance income | (542) | (467) | (683) | (618) |
| - Loss (gain) from other financial activities | 128 | 131 | (602) | (592) |
| Changes in working capital | | | | |
| (Increase) decrease in inventories | (177) | 295 | 1,097 | (673) |
| (Increase) decrease in prepayments | (159) | 216 | (1,406) | (1,229) |
| (Increase) decrease in trade receivables | (29,192) | (20,535) | 11,022 | 11,426 |
| Decrease in other receivables | 3,228 | 3,447 | 2,012 | 1,629 |
| Decrease (increase) in other current assets | 301 | 293 | (11) | (14) |
| Increase (decrease) in current trade payables and advances received | 22,835 | 21,463 | (6,319) | (4,230) |
| Increase (decrease) in payroll related liabilities | 583 | (200) | 620 | 338 |
| Increase in other accounts payable | 5,710 | 347 | 2,388 | 1,299 |
| Decrease in provisions | - | - | (688) | (688) |
| Income and social tax paid | (20,464) | (20,130) | (18,494) | (18,033) |
| Net cash flows from operating activities | 196,878 | 196,200 | 187,120 | 183,887 |
| Cash flows from / (to) investing activities | | | | |
| Purchases of property, plant and equipment and intangible assets | (141,692) | (141,162) | (144,036) | (142,274) |
| Proceeds on disposal of property, plant and equipment and intangible assets | 819 | 827 | 670 | 588 |
| Loan repayments received | 299 | 299 | 1,489 | 1,489 |
| Term deposits | - | - | (150) | - |
| Acquisition of investments | - | (801) | - | - |
| Loans granted | (3,222) | (3,222) | - | - |
| Proceeds on disposal of investments | 886 | 886 | 51 | 51 |
| Dividends received | - | 413 | - | 208 |
| Interest received | 566 | 491 | 665 | 601 |
| Net cash flows to investing activities | (142,344) | (142,269) | (141,311) | (139,337) |
| Cash flows from / (to) financing activities | | | | |
| Proceeds from borrowings | 413,862 | 413,862 | 166,275 | 166,275 |
| Proceeds from issuance of bonds | - | - | 25,896 | 25,896 |
| Bonds redeemed | - | - | (25,896) | (25,896) |
| Repayments of borrowings | (440,958) | (440,958) | (199,970) | (199,970) |
| Repayments of obligations under finance leases | (263) | - | (594) | - |
| Dividends paid | (8,074) | (8,074) | (8,084) | (8,084) |
| Interest paid | (5,440) | (5,421) | (5,018) | (4,995) |
| Realized derivative financial instruments | (63) | (63) | 395 | 395 |
| Other cash flows from financing activities | (68) | (68) | 237 | 237 |
| Net cash flows to financing activities | (41,004) | (40,722) | (46,759) | (46,142) |
| Net cash increase (decrease) | 13,530 | 13,209 | (950) | (1,592) |
| Cash and cash equivalents at the beginning of the period | 4,788 | 1,357 | 5,738 | 2,949 |
| Cash and cash equivalents at the end of the period | 18,318 | 14,566 | 4,788 | 1,357 |

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

EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2007
All amounts are in LTL thousand, unless stated otherwise

1. General information

Lietuvos Energija AB is a public limited liability company registered in the Republic of Lithuania. Its head office is located at Žvejų g. 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 on 27 March 1991, after the restoration of independence of the Republic of Lithuania. The Company was re-registered on 13 April 1999 at the Ministry of Economy.

The share capital of the Company did not change neither in 2006 nor 2007 and as of 31 December 2007 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. During 2007 and 2006 the Company did not purchase its own shares. As of 31 December 2007 the main shareholder of Lietuvos Energija AB was the state of Lithuania holding 96.5% 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 3.5% of the Company's shares are held by other shareholders.

The main activities of the Company in 2007 were as follows: transmission system operator, market operator, producer 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 2007 the Company had 2 branches: Kaunas Hydro Power Plant (HPP) and Kruonis Pumped Storage Plant (PSP). The 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 the following companies: Nordic Energy Link AS, Energetikos Pajėgos UAB, Geoterma UAB, Kruonio Investicijos UAB, Kauno Energetikos Remontas UAB. Indirectly, through Kauno Energetikos Remontas UAB, the Company had majority of votes in Gotiitas UAB and Kaliningradskij Energoremont OOO. On 4 October 2007 Rigas Energetikas Remonts SIA was liquidated. Before the liquidation date, 100% of Rigas Energetikas Remonts SIA shares were owned by Kauno Energetikos Remontas UAB.

These financial statements for 2007 include the consolidated Lietuvos Energija AB and its subsidiaries' financial statements and separate financial statements of the parent company 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 2007 (LTL) | Main activity |
|----------------------------------|------------------------------------------------|--------------------------|-----------------------------------|------------------------------------------|-------------------------------------|----------------------------------------------------------------|
| Energetikos Pajėgos UAB | T.Masiulio str. 16d, Kaunas, Lithuania | 100% | 430,400 | 116,448 | 677,912 | Design of energy objects |
| Kauno Energetikos Remontas UAB | Chemijos str. 17, Kaunas, Lithuania | 100% | 31,340,763 | 1,281,059 | 36,576,373 | Repair of energy equipment, manufacture of metal constructions |
| Kruonio Investicijos UAB | Kruonio II k., Kaišiadorių district, Lithuania | 100% | 2,361,000 | (55,198) | 2,305,802 | Development of public, recreational objects |
| Gotiitas UAB | R.Kaiantos str. 119, Kaunas, Lithuania | 100% | 1,450,000 | 24,246 | 1,460,392 | Accommodation services, trading activities |
| Kaliningradskij energoremont OOO | Jaltinskaya str. 66, Kaliningrad, Russia | 99% | 1,349 (RUR 9,900) | 88,859 | 122,158 | Repair of energy equipment |

(Continued)

EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2007
All amounts are in LTL thousand, unless stated otherwise

1. General information (continued)

As of 31 December 2007 the number of employees of the Group was 1,752 (1,797 as of 31 December 2006). 853 employees were employed at the head office and transmission divisions (847 as of 31 December 2006), 277 – in the branches (295 as of 31 December 2006), Energetikos Pajėgos UAB - 21 (19 as of 31 December 2006), Kauno Energetikos Remontas UAB - 560 (597 as of 31 December 2006), Kruonio Investicijos UAB -1, Gotlitas UAB - 22 (20 as of 31 December 2006), Kaliningradskij energoremont OOO - 18 (18 as of 31 December 2006).

On 8 March 2006 the heads of three Baltic energy companies – Lietuvos Energija AB, Eesti Energia AS and Latvenergo AS signed a memorandum of understanding regarding the preparation for construction of a new nuclear power plant in Lithuania. The basis for signing this Memorandum was laid on 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 2006 the project's Steering Committee approved the results of the Feasibility Study on the construction of a new nuclear power plant in Lithuania. During the Study the feasibility to construct a new nuclear facility in Lithuania was 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 is regulated by the Law No X-1231 of the Republic of Lithuania dated 28 June 2007, Law No. X-1446 on modification of Articles 8, 10, 11, 20 and amendment. For further information see Note 31 *Subsequent Events*.

The Company actively searches for opportunities to join the alternative electricity networks 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 company Nordic Energy Link AS and investing MEUR 5.5. On 4 January 2007 a trade of electricity through the new undersea cable was started.

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 18 October 2007 the international rating agency Standard & Poor's revised a corporate long-term credit rating for borrowings in foreign currency. It confirmed rating A- and established a negative rating outlook. The short-term credit rating for borrowings in foreign currency is A-2.

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2. Significant accounting policies

The main accounting policies adopted in preparing the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2007 are as follows:

2.1 Basis of representation

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

2.2 Basis of preparation

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 2.7 below) and revaluation of derivative financial instruments to fair value.

In the reporting period 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 at 1 January 2007. Adoption of these new and revised standards and interpretations made no impact on the changes in the accounting policy of the Company and the Group.

In the current year, the Company and the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes in IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's and the Company's financial instruments and management of capital (note 29).

a) Standards, amendments and interpretations that became effective in 2007, but made no impact on the accounting policy of the Company and the Group

The applied standards and their interpretations listed hereunder did not change the accounting policy of the Company and the Group.

- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006);
- 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);

b) Standards, amendments and interpretations that were issued, but not effective in 2007 and have not been early adopted by the Company and the Group

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

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009);
- IAS 1, Comprehensive Revision (amendment) (effective for annual periods beginning on or after 1 January 2009);
- IAS 23, Borrowing Costs (amendment) regarding capitalization of borrowing costs (effective for annual periods beginning on or after 1 January 2009) - 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);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008) - not yet endorsed by the EU;
- IFRIC 13, Customer Loyalty Programmes (effective for annual period beginning on or after 1 July 2008) - not yet endorsed by the EU;
- IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual period beginning on or after 1 January 2008) - not yet endorsed by the EU.

The Company and the Group's management is of the opinion that adoption of these standards and interpretations in the future will not significantly impact 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.

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2.3 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.

2.4 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 proportional part of the net fair value of the assets, liabilities and contingent liabilities recognized.

2.5 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.

2.6 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.

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.

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2.7 Property, plant and equipment

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, with the acquisition value 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 of non-current assets | Useful lives (years) |
|-------------------------------------|-----------------------------|
| Buildings and structures | 7 - 75 |
| Machinery and equipment | 4 - 40 |
| Vehicles | 4 - 10 |
| Other equipment, tools and devices | 3 - 15 |
| Other Property, plant and equipment | 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.

2.8 Impairment of property, plant and equipment (PPE) and non-current 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 at each balance sheet date, and whenever there is an indication that the asset may be impaired.

(Continued)

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2.8 Impairment of plant, property and equipment (PPE) and non-current intangible assets (continued)

Recoverable amount is the higher of the 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 (without exceeding the sum of previous value impairment).

2.9 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, by adding direct transaction costs.

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.

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.

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 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 transferred to the account of doubtful receivables. 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.

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2.10 Inventories

Inventories are initially measured at cost and are subsequently measured at the acquisition cost and net realizable value, depending on which of them is lower. 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.

2.11 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 is 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.

2.12 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 the Company or Group 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 2.9 in above)

2.13 Foreign currency translation

Transactions denominated in a 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 2007 | | 31 December 2006 |
|---------|------------------|---------|------------------|
| 1 EUR | = 3.4528 LTL | 1 EUR | = 3.4528 LTL |
| 1 LVL | = 4.9567 LTL | 1 LVL | = 4.9537 LTL |
| 100 RUB | = 9.6085 LTL | 100 RUR | = 9.9708 LTL |
| 10 SEK | = 3.6437 LTL | 10 SEK | = 3.8251 LTL |
| 1 USD | = 2.3572 LTL | 1 USD | = 2.6304 LTL |
| 10 EEK | = 2.2067 LTL | 10 EEK | = 2.2067 LTL |

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 Group 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.

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2.14 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.

2.15 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 the 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 the 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.

2.16 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 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, and 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. Dividends of the subsidiaries allocated to the patronizing company, are eliminated in the consolidated financial statements.

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.

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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 pre-tax 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 was effective for 2006 and a 3% rate is effective for 2007. The basis for social tax calculation is the same as for income tax

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 are calculated, for 2007 and 2006 were 689,515,435. As of 31 December 2007 and 31 December 2006 and in 2007 and 2006, 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 financial 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.

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 2007 and 31 December 2006 there were no indications that property, plant and equipment was impaired.

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4. Intangible assets

As of 31 December 2007 and 2006 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 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 |
| - additions | 8 | 1,053 | - | 1,061 |
| - disposals (-) | - | (117) | (7) | (124) |
| As of 31 December 2007 | 2,337 | 17,634 | 36 | 20,007 |
| Amortization | | | | |
| 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 |
| - amortization | 663 | 2,107 | 8 | 2,778 |
| - disposals (-) | - | (117) | (7) | (124) |
| As of 31 December 2007 | 1,714 | 13,173 | 15 | 14,902 |
| Carrying amount | | | | |
| As of 31 December 2006 | 1,278 | 5,515 | 29 | 6,822 |
| As of 31 December 2007 | 623 | 4,461 | 21 | 5,105 |

As of 31 December 2007 and 2006 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 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 |
| - additions | - | 993 | - | 993 |
| - disposals (-) | - | (117) | (7) | (124) |
| As of 31 December 2007 | 2,277 | 17,501 | - | 19,778 |
| Amortization | | | | |
| 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 |
| - amortization | 648 | 2,093 | - | 2,741 |
| - disposals (-) | - | (117) | (7) | (124) |
| As of 31 December 2007 | 1,667 | 13,108 | - | 14,775 |
| Carrying amount | | | | |
| As of 31 December 2006 | 1,258 | 5,493 | - | 6,751 |
| As of 31 December 2007 | 610 | 4,393 | - | 5,003 |

As of 31 December 2007 and 2006 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 2007 | Company 2007 | Group 2006 | Company 2006 |
|----------------------------------------|---------------|-----------------|---------------|-----------------|
| Patents and licenses | 555 | 555 | 296 | 296 |
| Software | 9,521 | 9,478 | 7,294 | 7,294 |
| Other intangible assets | - | - | 7 | 7 |
| Total | 10,076 | 10,033 | 7,597 | 7,597 |

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5. Property, plant and equipment

As of 31 December 2007 and 2006 the Group's property, plant and equipment was as follows:

| Group | Buildings and structures | | | | | | Machinery and equipment | | Vehicles | | Other equipment, tools and devices | | Construction in progress | | Other PPE | | Total |
|----------------------------------|--------------------------|------------------|----------------|---------------|----------------|----------------|-------------------------|--|----------|--|------------------------------------|--|--------------------------|--|-----------|------------------|-------|
| | Land | | | | | | | | | | | | | | | | |
| Acquisition (deemed) cost | | | | | | | | | | | | | | | | | |
| 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 | |
| - additions | 84 | 5,039 | 3,485 | 2,697 | 5,698 | 137,656 | 14,403 | | | | | | | | | 169,062 | |
| - disposals (-) | - | (3,350) | (2,027) | (553) | (1,017) | (9) | - | | | | | | | | | (6,956) | |
| - reclassifications +/- | - | 55,720 | 12,258 | - | 6,710 | (34,770) | (39,918) | | | | | | | | | - | |
| 31 December 2007 | 84 | 2,490,169 | 311,148 | 24,893 | 135,006 | 198,475 | 11,586 | | | | | | | | | 3,171,361 | |
| Depreciation | - | | | | | | | | | | | | | | | | |
| 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) | |
| - reclassifications +/- | - | (10) | 15 | - | - | - | (5) | | | | | | | | | - | |
| As of 31 December 2006 | - | 332,444 | 59,456 | 12,161 | 55,384 | - | 254 | | | | | | | | | 459,699 | |
| - depreciation | - | 101,112 | 20,325 | 3,178 | 20,077 | - | 82 | | | | | | | | | 144,774 | |
| - disposals (-) | - | (1,264) | (1,935) | (543) | (901) | - | - | | | | | | | | | (4,643) | |
| 31 December 2007 | - | 432,292 | 77,846 | 14,796 | 74,560 | - | 336 | | | | | | | | | 599,830 | |
| Impairment | | | | | | | | | | | | | | | | | |
| As of 31 December 2005 | - | 11 | - | 58 | - | - | 34 | | | | | | | | | 103 | |
| - impairment | - | 1,207 | - | - | - | - | - | | | | | | | | | 1,207 | |
| - reversals (-) | - | - | - | (58) | - | - | (34) | | | | | | | | | (92) | |
| 31 December 2006 | - | 1,218 | - | - | - | - | - | | | | | | | | | 1,218 | |
| - disposals (-) | - | (30) | - | - | - | - | - | | | | | | | | | (30) | |
| - impairment | - | 193 | 369 | - | 727 | - | - | | | | | | | | | 1,289 | |
| 31 December 2007 | - | 1,381 | 369 | - | 727 | - | - | | | | | | | | | 2,477 | |
| Carrying amount | | | | | | | | | | | | | | | | | |
| As of 31 December 2006 | - | 2,099,098 | 237,976 | 10,588 | 68,231 | 95,598 | 36,847 | | | | | | | | | 2,548,338 | |
| As of 31 December 2007 | 84 | 2,056,496 | 232,933 | 10,097 | 59,719 | 198,475 | 11,250 | | | | | | | | | 2,569,054 | |

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All amounts are in LTL thousand, unless stated otherwise

5. Property, plant and equipment (continued)

As of 31 December 2007 and 2006 the Company's property, plant and equipment consisted of the following:

| Company | Other equipment, tools and devices | | | | | | | Total |
|----------------------------------|------------------------------------|--------------------------|-------------------------|---------------|--------------------------|----------------|---------------|------------------|
| | Land | Buildings and structures | Machinery and equipment | Vehicles | Construction in progress | Other PPE | | |
| Acquisition (deemed) cost | | | | | | | | |
| 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 |
| - additions | 84 | 4,254 | 2,587 | 2,469 | 5,686 | 138,773 | 14,374 | 168,227 |
| - revaluation | - | 1,560 | - | - | - | - | - | 1,560 |
| - disposals (-) | - | (4,678) | (1,881) | (442) | (1,017) | (9) | - | (8,027) |
| - reclassifications +/- | - | 55,794 | 12,256 | - | 6,710 | (34,842) | (39,918) | - |
| As of 31 December 2007 | 84 | 2,471,233 | 300,671 | 22,509 | 134,695 | 200,070 | 10,690 | 3,139,952 |
| Depreciation | | | | | | | | |
| 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) |
| - reclassifications +/- | - | (11) | 16 | - | - | - | (5) | - |
| As of 31 December 2006 | - | 331,229 | 56,930 | 11,479 | 55,208 | - | 106 | 454,952 |
| - depreciation | - | 100,711 | 19,249 | 2,874 | 20,014 | - | 35 | 142,883 |
| - disposals (-) | - | (1,256) | (1,799) | (435) | (901) | - | - | (4,391) |
| As of 31 December 2007 | - | 430,684 | 74,380 | 13,918 | 74,321 | - | 141 | 593,444 |
| Impairment | | | | | | | | |
| 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 |
| - impairment for the year | - | 192 | 369 | - | 728 | - | - | 1,289 |
| - disposals (-) | - | (30) | - | - | - | - | - | (30) |
| As of 31 December 2007 | - | 1,369 | 369 | - | 728 | - | - | 2,466 |
| Carrying amount | | | | | | | | |
| As of 31 December 2006 | - | 2,081,867 | 230,779 | 9,003 | 68,108 | 96,148 | 36,128 | 2,522,033 |
| As of 31 December 2007 | 84 | 2,039,180 | 225,922 | 8,591 | 59,646 | 200,070 | 10,549 | 2,544,042 |

In 2007 the Company completed the following major investment projects:

| Project | Value, LTL'000 |
|-----------------------------------------------------------------------------------------------|----------------|
| Partial repl. of 110 kV OL section Šiaurinė and Šeškinė I-II-Baltupis-Kino studija with cable | 9,228 |
| Expansion of Lietuvos Energija AB data center and telecommunications premises | 7,288 |
| Reconstruction of Joniškis 110/35/10 kV SS | 7,093 |
| Connection of Panevėžio Energija AB to 110 kV grid | 6,302 |
| Reconstruction of the 110/10 kV Šilutė SS | 5,642 |
| Reconstruction of the 110/35/10 kV Molėtai SS | 5,060 |
| Connection of 110/10 kV Smeltė to 110 kV grid (construction of cable lines) | 3,077 |

(Continued)

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All amounts are in LTL thousand, unless stated otherwise

5. Property, plant and equipment (continued)

As of 31 December 2007 and 2006 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 | 2007 | 2006 |
|-----------------------------------------------|--------------|--------------|
| Machinery and equipment | 1,196 | 1,334 |
| Vehicles | 102 | 130 |
| Total | 1,298 | 1,464 |

As of 31 December 2007 and 2006 the acquisition cost of Group and Company's fully depreciated property, plant and equipment that are still in use consisted of the following:

| Group of property, plant and equipment | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|-----------------------------------------------|-------------------|---------------------|-------------------|---------------------|
| Buildings and structures | 51,432 | 51,415 | 1,530 | 1,530 |
| Machinery and equipment | 11,388 | 11,223 | 2,159 | 2,042 |
| Vehicles | 8,246 | 8,137 | 6,562 | 6,560 |
| Other equipment, tools and devices | 19,712 | 19,634 | 12,412 | 12,412 |
| Total | 90,778 | 90,409 | 22,663 | 22,544 |

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 48,459 and EUR'000 23,670 (total amount LTL'000 130,187) of which MLTL 30 will be financed from European regional development fund and national budget. The contractor of the project – Alstom Power Sweden AS. The project is scheduled to be finished in 2009.

6. Investments

As of 31 December 2007 the Company had direct control over three subsidiaries: Energetikos Pajėgos UAB (acquisition cost of LTL'000 414), Kauno Energetikos Remontas UAB (acquisition cost of LTL'000 31,341) and Kruonio Investicijos UAB (acquisition cost LTL'000 2,361). The Company owns 100% of shares in each of these companies. The remaining two subsidiaries (Gotlitas UAB and Kaliningradskij energoremont OOO (Note 1)) the Company controls indirectly, i.e. through Kauno Energetikos Remontas UAB.

Kruonio Investicijos UAB was established on at 18 January 2007. The Company owns 100% of the shares in the subsidiary. The share capital of the newly established subsidiary amounts to LTL'000 2,361 and is divided into 23,610 ordinary shares with a par value of LTL 100 each. The objective of Kruonio Investicijos UAB business - the development of social and recreational facilities.

The share capital of Kruonio Investicijos UAB was paid in cash in the amount of LTL'000 410 and in kind by contributing the real estate which, at the moment of the contribution, was evaluated by independent appraisers at its fair value. The book value of the contributed real estate amounted to LTL'000 391. The appraisal was performed by the independent property appraisal company Latmas UAB using depreciated replacement cost method. The value of the real estate contributed to the subsidiary increased by LTL'000 1,560.

At 20 March 2007 the liquidation procedure of Baltijas Energosistemu Dispečeru Centrs BO SIA was completed. After its liquidation, the Company lost 33.33% of Baltijas Energosistemu Dispečeru Centrs BO SIA shares.

As of 31 December 2007 and 2006 investments in associates consisted of the following:

| Company 2007 | Acquisition cost | Ownership percentage | Impairment | Carrying amount |
|-----------------------|-------------------------|-----------------------------|-------------------|------------------------|
| Geoterma UAB | 4,373 | 23.44 | (2,726) | 1,647 |
| Nordic Energy Link AS | 18,978 | 25.00 | - | 18,978 |
| Total | 23,351 | | (2,726) | 20,625 |

(Continued)

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All amounts are in LTL thousand, unless stated otherwise

6. Investments (continued)

| Company 2006 | Acquisition cost | Ownership percentage | 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 | 25.00 | (274) | 18,704 |
| Total | 26,091 | | (4,350) | 21,741 |

*- Investment into associated company DC Baltija was accounted in the balance sheet under other current assets in the financial statements for the year 2006.

Financial position as of 31 December 2007 and net profit (loss) for the year ended 31 December 2007 of the associates were the following:

| Company 2007 | Assets | Liabilities | Revenue | Net profit (loss) |
|-------------------------|---------------|--------------------|----------------|------------------------------|
| Geoterma UAB | 55,472 | 48,445 | 2,202 | (3,503) |
| Nordic Energy Link AS* | 339,678 | 262,105 | 60,599 | 2,756 |

Financial position as of 31 December 2006 and net profit (loss) for the year ended 31 December 2006 of the associates were 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) |

For the year ended 31 December 2007 and 2006, the movement of investments in associates was as follows:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|-------------------------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Carrying amount as of 1 January | 21,741 | 21,741 | 24,117 | 24,117 |
| Impairment of investment in associates | (59) | (606) | (416) | (2,376) |
| Share of financial result (loss) of associates | (132) | - | (1,960) | - |
| Liquidation of Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija) | (510) | (510) | - | - |
| Carrying amount as of 31 December | 21,040 | 20,625 | 21,741 | 21,741 |

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7. Non-current accounts receivable

The Group and Company's non-current accounts receivable as of December 31 consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|-------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Accounts receivable from VST AB* | 1,500 | 1,500 | 7,810 | 7,810 |
| Other receivables | 777 | 777 | 955 | 955 |
| Total | 2,277 | 2,277 | 8,765 | 8,765 |
| Less: current receivables (note 10) | (299) | (299) | (973) | (973) |
| Carrying amount | 1,978 | 1,978 | 7,792 | 7,792 |

* In 2005 Lietuvos Energija AB decided to transfer 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 2007 receivable under such transaction, amounting to LTL'000 1,500 (as of 31 December 2006 – LTL'000 7,810), is accounted under non-current accounts receivable. The amount will be repaid in equal installments up to the year 2013. Its current portion, amounting to LTL'000 267, and accrued interest of LTL'000 7 are accounted under other current receivables (see Note 10). The interest rate of this transaction approximates the market interest rate. Joint-stock company VST in advance (18 January 2008) repaid the entire amount of the loan and the accrued interest.

The fair value of the non-current accounts receivable approximates their carrying amount.

8. Inventories

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|-------------------------------------------------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Materials and spare parts, production in progress and finished goods at acquisition (production) cost | 12,760 | 6,053 | 12,298 | 6,011 |
| Goods for resale at acquisition cost | 560 | 487 | 782 | 733 |
| Less: write-down to net realizable value | (482) | (396) | (378) | (351) |
| Carrying amount | 12,838 | 6,144 | 12,702 | 6,393 |

For the year ended 31 December 2007 and 2006, the movement of allowances for inventories consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Carrying amount as of 1 January | 378 | 351 | 192 | 189 |
| Increase of provisions for inventory for the reporting period | 264 | 205 | 405 | 378 |
| Reversal of provision for inventory | (160) | (160) | (219) | (216) |
| Carrying amount as of 31 December | 482 | 396 | 378 | 351 |

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9. Trade receivables

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|--------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Receivables from electricity market participants | 85,549 | 85,549 | 78,163 | 78,163 |
| Receivables from other Lithuanian companies | 33,745 | 17,107 | 25,418 | 17,427 |
| Receivables for exported electricity | 11,866 | 11,866 | 2,098 | 2,098 |
| Receivables for electricity transit | 157 | 157 | 49 | 49 |
| Total | 131,317 | 114,679 | 105,728 | 97,737 |
| Less: allowance for doubtful receivables | (9,947) | (9,612) | (9,954) | (9,612) |
| Carrying amount | 121,370 | 105,067 | 95,774 | 88,125 |

The fair value of trade receivables approximates their carrying amount.

The movement of allowances for doubtful receivables for the year ended 31 December 2007 and 2006 consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Carrying amount as of 1 January | 9,954 | 9,612 | 7,943 | 7,558 |
| Recognized as doubtful receivables per reporting period | - | - | 4,369 | 4,305 |
| Reversal of provisions for doubtful receivables | (7) | - | (107) | - |
| Write-off of provisions for doubtful receivables | - | - | (2,251) | (2,251) |
| Carrying amount as of 31 December | 9,947 | 9,612 | 9,954 | 9,612 |

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10. Other current receivables

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|-----------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Deferred VAT receivable | 2,961 | 2,961 | 836 | 836 |
| Receivables for IT and telecommunication services | 3,283 | 3,287 | 2,551 | 2,551 |
| Loan to Geoterma UAB | 3,222 | 3,222 | - | - |
| Current portion of non-current receivables (note 7) | 299 | 299 | 973 | 973 |
| VAT receivable | 1,774 | 1,513 | 2,983 | 2,970 |
| Receivables for connection of wind power stations | - | - | 958 | 958 |
| Other receivables | 266 | 203 | 787 | 702 |
| Carrying amount | 11,805 | 11,485 | 9,088 | 8,990 |

As of December 31 the ageing analysis of the Group and the Company's other receivables that were not recognized as doubtful, was as follows:

| | Group 31 December 2007 | Company 31 December 2007 | Group 31 December 2007 | Company 31 December 2007 |
|----------------------------|---------------------------------------|-----------------------------------------|---------------------------------------|-----------------------------------------|
| Not overdue | 10,944 | 10,624 | 7,827 | 7,725 |
| Overdue up to 30 days | 609 | 609 | 1,210 | 1,214 |
| Overdue from 30 to 60 days | 252 | 252 | 51 | 51 |
| Carrying amount | 11,805 | 11,485 | 9,088 | 8,990 |

The carrying amounts of other current receivables approximates their fair values.

11. Term deposits

As of December 31 the Group and the Company's term deposits consisted of:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Term deposit at Bank Snoras AB (LTL), maturity - July 2008 | 150 | - | 150 | - |
| Carrying amount | 150 | - | 150 | - |

The carrying amounts of term deposits approximates their fair values.

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12. Cash and cash equivalents

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|--------------------------------------------------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Cash at banks and on hand | 12,307 | 9,915 | 3,839 | 908 |
| Term deposit at bank Nordea Bank Finland Plc Lithuania's branch (LTL), maturity – January 2008. | 1,000 | - | - | - |
| Term deposit at bank Nordea Bank Finland Plc Lithuania's branch (LTL), maturity – December 2008. | 360 | - | - | - |
| Term deposit at bank Snoras AB (LTL), maturity – March 2007 | - | - | 500 | - |
| Overnight deposit at bank Hansabankas AB (LTL) | 3,739 | 3,739 | 449 | 449 |
| Overnight deposit at bank Hansabankas AB (EUR) | 912 | 912 | - | - |
| Carrying amount | 18,318 | 14,566 | 4,788 | 1,357 |

Weighted average of annual interest rate for term deposits in banks accounted under term deposit at banks and cash and cash equivalent balances - 5.11 per cent.

13. Share capital

As of 31 December 2007 and 2006 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 are fully paid. In 2007 the highest share price at the Stock Exchange session was LTL 8.40 per share, lowest – LTL 3.20 per share. The number of shareholders as of 31 December 2007 was 5,549.

Company shareholders were:

| Shareholders | 2007 shares | | 2006 shares | |
|--------------------------------------------------------------------------------------|------------------------|---------------|------------------------|---------------|
| | (Lt) | Proc. | (Lt) | Proc. |
| Lithuanian State, represented by Ministry of Economy of the Republic of Lithuania | 665,400,833 | 96.50 | 665,891,508 | 96.57 |
| Other | 24,114,602 | 3.50 | 23,623,927 | 3.43 |
| 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 2007, 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.

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15. Other reserves

As of December 31 the Group and 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 | Restricted Reserve related to fixed assets | Other reserves | Total |
|---------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------|---------------------|-------------------------------------------------------------|--------------------------------------------|----------------|------------------|
| 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 |
| Transfers to reserve | - | - | - | 1,855 | - | 10,531 | 12,386 |
| Reserves used | - | - | - | (2,160) | - | - | (2,160) |
| Balance as of 31 December 2007 | (63,777) | 162,744 | - | 1,719 | 1,293,569 | 10,531 | 1,404,786 |

| 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 | Restricted Reserve related to fixed assets | Other reserves | Total |
|--------------------------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------|---------------------|-------------------------------------------------------------|--------------------------------------------|----------------|------------------|
| 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 |
| Transfers to reserve | - | - | - | 1,700 | - | 10,531 | 12,231 |
| Reserves used | - | - | - | (2,000) | - | - | (2,000) |
| Result of revaluation of property, plant and equipment | - | - | 1,560 | - | - | - | 1,560 |
| Disposal of property, plant and equipment | - | - | (1,560) | - | - | - | (1,560) |
| Balance as of 31 December 2007 | (63,777) | 160,637 | - | 1,700 | 1,293,569 | 10,531 | 1,402,660 |

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 Vilnius Mazuto Saugykla VI (although expected, the share capital has not yet been reduced by this amount).

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

16. Borrowings

As of December 31 the Group and the Company's borrowings according to the repayment schedules are as follows:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|--------------------|---------------|---------------|---------------|---------------|
| Within first year | 2,022 | 2,022 | 20,581 | 20,581 |
| Within second year | 19,286 | 19,286 | 5,085 | 5,085 |
| Within third year | 19,286 | 19,286 | 12,381 | 12,381 |
| Within fourth year | 2,022 | 2,022 | 15,833 | 15,833 |
| Within fifth year | 19,287 | 19,287 | 15,833 | 15,833 |
| After five years | 2,022 | 2,022 | 21,308 | 21,308 |
| Total | 63,925 | 63,925 | 91,021 | 91,021 |

(Continued)

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16. Borrowings (continued)

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

| Credit institution | Contractual amount (EUR'000) | Carrying amount (as of 31 December 2007) (EUR'000) | Maturity | Current portion (as of 31 December 2007) | Carrying amount as of 2007 | Current portion (as of 31 December 2006) | Carrying amount as of 2006 |
|-------------------------------------------|------------------------------|----------------------------------------------------|----------|------------------------------------------|----------------------------|------------------------------------------|----------------------------|
| Zurcher Kantonalbank | 8,013 | 3,514 | 2013 | 2,022 | 12,133 | 2,022 | 14,155 |
| SEB Vilniaus Bankas AB | 15,000 | - | 2009 | - | - | - | 13,421 |
| UniCredit Bank AS Lithuanian Branch | 15,000 | 15,000 | 2012 | - | 51,792 | - | 44,886 |
| Nordea Bank Finland Plc Lithuanian Branch | 15,000 | - | 2007 | - | - | 18,559 | 18,559 |
| Bank Hansabankas AB | 11,585 | - | 2009 | - | - | - | - |
| Total long-term borrowings: | 64,598 | 18,514 | | 2,022 | 63,925 | 20,581 | 91,021 |

The fair value of the borrowings approximates their carrying amount.

As of 31 December 2007 the Company had borrowings amounting to LTL'000 50,114 with a floating interest rate (weighted average – 5.3%) and borrowings amounting to LTL'000 13,811 with a fixed interest rate (weighted average – 4.8%).

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%).

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 12 May 2002 agreement with bank Hansabankas AB (contractual amounts – LTL'000 9,000, EUR'000 3,185 and EUR'000 11,585) the Company is obligated to carry monthly turnover of over MLTL 15 through the Company's accounts at this bank, not to close accounts without advance 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.
- Under 28 August 2002 agreement with SEB Vilniaus Bankas AB (contractual amounts – EUR'000 15,000 and LTL'000 10,358) the Company is 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 is 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 Bayerische Hypo-und Weresbank AG Vilnius branch (contractual amount – EUR'000 15,000) the Company is 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. At 1 September 2007 under a contract UniCredit Bank from HVB-Bank overtook all rights and obligations acquired through Bayerische Hypo und Vereinsbank AB Vilnius Branch.

In 2007 and 2006 the Group and the Company complied with all covenants under the credit agreements.

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17. Obligations under finance leases

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

| Group | 2007 | | 2006 | |
|------------------------------------------------|------------------------|-----------------------------------------|------------------------|-----------------------------------------|
| | 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 | 120 | 118 | 275 | 263 |
| Within the second to fifth year inclusive | - | - | 120 | 119 |
| Minimum lease payments | 120 | 118 | 395 | 382 |
| Less: future finance charges | (2) | - | (13) | - |
| Present value of minimum lease payments | 118 | 118 | 382 | 382 |

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 obligations under finance leases approximates their carrying amount.

18. Issued bonds

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 2007 was EUR'000 7,409 (LTL'000 25,583) (as of 31 December 2006 – EUR'000 7,463 (LTL'000 25,767)).

19. Grants

For the years 2007 and 2006 ended December 31, the movement of grants consisted of the following:

| Group | Grants related to assets | | Iš viso |
|-----------------------------------------------|----------------------------------|---------------------------------------------------|---------------|
| | Grants related to connection fee | Grants related to financing of assets acquisition | |
| 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 received | 10,674 | 17,384 | 28,058 |
| - grants used | (397) | (1,130) | (1,527) |
| Carrying amount as of 31 December 2007 | 14,202 | 36,669 | 50,871 |

| Company | Grants related to assets | | Iš viso |
|-------------------------------|----------------------------------|---------------------------------------------------|---------------|
| | Grants related to connection fee | Grants related to financing of assets acquisition | |
| 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 2006 | 3,925 | 20,340 | 24,265 |
| - grants received | 10,674 | 17,384 | 28,058 |
| - grants used | (397) | (1,107) | (1,504) |
| Carrying amount | | | |
| As of 31 December 2007 | 14,202 | 36,617 | 50,819 |

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 20). As of 31 December 2007 these advance payments amounted to LTL'000 18,883 (as of 31 December 2006 – LTL'000 14,366).

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20. Trade and other payables

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|----------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Trade payables | 156,283 | 145,304 | 140,551 | 135,258 |
| Advances received | 24,716 | 21,463 | 18,279 | 16,057 |
| Deferred VAT payable | 7,658 | 7,658 | 7,763 | 7,763 |
| Payroll related liabilities | 2,872 | 1,222 | 2,595 | 1,422 |
| Vacation reserve | 3,355 | 3,025 | 2,537 | 2,512 |
| Property tax payable | 2,145 | 2,145 | 2,087 | 2,087 |
| Dividends payable | 633 | 633 | 553 | 553 |
| Other payables and current liabilities | 919 | 814 | 766 | 681 |
| Carrying amount | 198,581 | 182,264 | 175,131 | 166,333 |

Fair value of trade and other payables approximates their carrying amount.

21. Income tax expense

For the year ended 31 December 2007 and 2006 the income tax expense consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|-----------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Components of the income tax expense | | | | |
| Income tax (including social tax) | 23,366 | 22,947 | 19,345 | 18,924 |
| Deferred income tax benefit | (11,548) | (11,493) | (15,589) | (15,536) |
| Income tax expenses for the reporting period | 11,818 | 11,454 | 3,756 | 3,388 |

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Deferred income tax assets | | | | |
| Impairment of property, plant and equipment (deemed cost) | (189,442) | (189,442) | (198,167) | (198,167) |
| Doubtful receivables (Baltic Shem and Liberty, etc.) | (3,894) | (3,894) | (8,565) | (8,565) |
| Doubtful receivables (Ekranas AB) | (1,442) | (1,442) | (1,442) | (1,442) |
| Vacation reserve | (503) | (454) | (389) | (389) |
| Impairment of financial assets (will be recognized for tax purposes at the moment of disposal) | (409) | (409) | (326) | (326) |
| Recognition for tax purposes of capitalized finance costs previously written-off | (68) | (68) | (237) | (237) |
| Allowances for inventories to net realizable value | (59) | (59) | (53) | (53) |
| Total deferred income tax assets | (195,817) | (195,768) | (209,179) | (209,179) |
| Deferred income tax liabilities | | | | |
| Increase in value of property, plant and equipment (deemed cost) | 376,861 | 376,696 | 399,582 | 399,440 |
| Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress) | 25,705 | 25,464 | 28,003 | 27,733 |
| Impact of application of different depreciation rates for property, plant and equipment in financial and tax accounting | 1,326 | 1,326 | 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 2007 | 2 | 2 | 5 | 5 |
| Other (derivative financial instruments) | - | - | 11 | 11 |
| Total deferred income tax liabilities | 403,894 | 403,488 | 428,887 | 428,475 |
| Less: valuation allowance | 409 | 409 | 326 | 326 |
| Deferred income tax liabilities, net | 208,486 | 208,129 | 220,034 | 219,622 |

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Deferred income tax assets and liabilities were accounted by using 15% tax rate, excluding deferred income tax assets and liabilities which were recovered or settled in 2007, 2006. According to the Law on Provisional Social Tax of the Republic of Lithuania, the Group's companies paid 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.

As of December 31 the Group and Company's periods of deferred income tax assets recovery and deferred tax liabilities settlement were as follows:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|-------------------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Deferred income tax assets: | | | | |
| Deferred income tax assets to be recovered after more than 12 months | 184,126 | 184,126 | 194,762 | 194,762 |
| Deferred income tax assets to be recovered within 12 months | 11,282 | 11,233 | 14,091 | 14,091 |
| Total deferred income tax assets | 195,408 | 195,359 | 208,853 | 208,853 |
| Deferred income tax liabilities: | | | | |
| Deferred income tax liabilities to be settled after more than 12 months | 383,399 | 383,005 | 401,677 | 401,265 |
| Deferred income tax liabilities to be settled within 12 months | 20,495 | 20,483 | 27,210 | 27,210 |
| Total deferred income tax liabilities | 403,894 | 403,488 | 428,887 | 428,475 |
| Deferred income tax liabilities, net | 208,486 | 208,129 | 220,034 | 219,622 |

Group's changes of temporary differences were as follows:

| | As of 31 December 2006 | Charged (credited) to the income statement | As of 31 December 2007 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------------------------------|---------------------------------------|
| Impairment of property, plant and equipment (deemed cost) | (1,310,920) | 47,971 | (1,262,949) |
| Doubtful receivables (Baltic Shem and Liberty, etc.) | (51,909) | 25,948 | (25,961) |
| Doubtful receivables (Ekranas AB) | (9,612) | - | (9,612) |
| Vacation reserve | (2,512) | (845) | (3,357) |
| Impairment of financial assets (will be recognized for tax purposes at the moment of disposal) | (2,178) | (548) | (2,726) |
| Recognition for tax purposes of capitalized finance costs previously written-off | (1,396) | 946 | (450) |
| Allowances for inventories to net realizable value | (350) | (46) | (396) |
| Increase in value of property, plant and equipment (deemed cost) | 2,636,044 | (123,634) | 2,512,410 |
| Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress) | 184,306 | (12,935) | 171,371 |
| Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting | 8,577 | 260 | 8,837 |
| Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until 31 December 2007 | 25 | (9) | 16 |
| Other (derivative financial instruments) | 63 | (63) | - |
| Total temporary differences | 1,450,138 | (62,955) | 1,387,183 |
| Deferred income tax by applying 15% tax rate, net | 217,521 | (9,444) | 208,077 |
| Decrease in deferred income tax due to effect of social tax | 2,187 | (2,187) | - |
| Total deferred income tax, net | 219,708 | (11,631) | 208,077 |
| Less: valuation allowance | 326 | 83 | 409 |
| Deferred income tax liabilities, after assessment | 220,034 | (11,548) | 208,486 |

(Continued)

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21. Income tax expense (continued)

Company's changes of temporary differences consisted of the following:

| | As of 31 December 2006 | Charged (credited) to the income statement | As of 31 December 2007 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------------------------|------------------------------|
| Impairment of property, plant and equipment (deemed cost) | (1,310,920) | 47,971 | (1,262,949) |
| Allowances for doubtful receivables (Baltic Shem and Liberty) | (51,909) | 25,948 | (25,961) |
| Allowances for doubtful receivables (Ekranas AB) | (9,612) | - | (9,612) |
| Vacation reserve | (2,512) | (513) | (3,025) |
| Impairment of financial assets (will be recognized for tax purposes at the moment of disposal) | (2,178) | (548) | (2,726) |
| Recognition for tax purposes of capitalized finance costs previously written-off | (1,396) | 946 | (450) |
| Allowances for inventories to net realizable value | (350) | (46) | (396) |
| Increase in value of property, plant and equipment (deemed cost) | 2,635,097 | (123,792) | 2,511,305 |
| Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress) | 182,507 | (12,745) | 169,762 |
| Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting | 8,577 | 260 | 8,837 |
| Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until 31 December 2007 | 25 | (9) | 16 |
| Other (derivative financial instruments) | 63 | (63) | - |
| Total temporary differences | 1,447,392 | (62,591) | 1,384,801 |
| Deferred income tax by applying 15% tax rate, net | 217,109 | (9,389) | 207,720 |
| Decrease in deferred income tax due to effect of social tax | 2,187 | (2,187) | - |
| Total deferred income tax, net | 219,296 | (11,576) | 207,720 |
| Less: valuation allowance | 326 | 83 | 409 |
| Deferred income tax liabilities, after assessment | 219,622 | (11,493) | 208,129 |

Reconciliation of income tax expense to the accounting profit consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|--------------------------------------------------------------------------------------|---------------|-----------------|---------------|-----------------|
| Profit before tax | 60,206 | 58,805 | 22,461 | 21,749 |
| Tax at the income tax rate of 18% (2006: 19%) | 10,837 | 10,585 | 4,268 | 4,132 |
| Tax effect of items that are not deductible or taxable in determining taxable profit | 981 | 869 | (512) | (744) |
| Income tax expense | 11,818 | 11,454 | 3,756 | 3,388 |
| Effective income tax rate (%) | 20 | 19 | 17 | 16 |

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22. Business and geographical segments

The Group has separated six business segments (activities). As of 31 December 2007 and for the year then ended the information about these segments consisted of the following:

| 2007 | Business segments | | | | | | Total |
|-----------------------------------------------------------------------------------------------------|--------------------------|-------------------|------------------------|--------------------|----------------|----------------------------|------------------|
| | Electricity transmission | Electricity trade | Electricity generation | Electricity export | Nuclear power | Design and repair services | |
| Income | 385,754 | 636,467 | 91,061 | 295,547 | - | 73,126 | 1,481,955 |
| <i>Incl. internal turnover among Company segments</i> | 29,251 | 42,047 | 91,061 | 135,752 | - | - | 298,111 |
| Income after elimination of internal turnover among Company segments | 356,503 | 594,420 | - | 159,795 | - | 73,126 | 1,183,844 |
| <i>Incl. internal turnover among Group companies</i> | - | - | - | - | - | 7,038 | 7,038 |
| Income after elimination of internal turnover among Group companies | 356,503 | 594,420 | - | 159,795 | - | 66,088 | 1,176,806 |
| Expenses | 347,336 | 631,368 | 84,351 | 277,845 | 3,589 | 71,439 | 1,415,928 |
| <i>Incl. internal turnover among Company segments</i> | 39,892 | 170,732 | 45,771 | 41,726 | - | - | 298,121 |
| Expenses after elimination of internal turnover among Company segments | 307,444 | 460,636 | 38,580 | 236,119 | 3,589 | 71,439 | 1,117,807 |
| <i>Incl. internal turnover among Group companies</i> | 93 | - | - | - | - | 6,915 | 7,008 |
| Expenses after elimination of internal turnover among Group companies | 307,351 | 460,636 | 38,580 | 236,119 | 3,589 | 64,524 | 1,110,799 |
| Break-down of significant items of expenses: | | | | | | | |
| Electricity purchase, purchase of capacity reserve, transmission, regulation and balancing expenses | 129,276 | 629,834 | 45,769 | 277,350 | - | - | 1,082,229 |
| Repair and maintenance expenses | 33,299 | 36 | 5,056 | 29 | - | 3,491 | 41,911 |
| Depreciation and amortization | 119,241 | 136 | 16,300 | 11 | - | 1,954 | 137,642 |
| Wages, salaries, social insurance and accrued vacation reserve | 41,081 | 466 | 8,566 | 361 | 184 | 22,897 | 73,555 |
| Taxes other than income tax | 3,453 | 15 | 6,580 | 15 | - | 261 | 10,324 |
| Communications and IT expenses | 4,691 | 591 | 91 | 11 | - | 316 | 5,700 |
| Utilities | 1,284 | 3 | 84 | 3 | - | 381 | 1,755 |
| Subcontractors | - | - | - | - | - | 29,545 | 29,545 |
| Production materials expenses | - | - | - | - | - | 9,684 | 9,684 |
| Research and development | 2,205 | 200 | 123 | - | 181 | 2,652 | 5,361 |
| Other | 12,806 | 87 | 1,782 | 65 | 3,224 | 258 | 18,222 |
| Profit (loss) from ordinary activities (before elimination of internal turnover) | 38,418 | 5,099 | 6,710 | 17,702 | (3,589) | 1,687 | 66,027 |
| Elimination of internal turnover | | | | | | | (20) |
| Profit (loss) from ordinary activities (after elimination of internal turnover) | | | | | | | 66,007 |
| Segment's assets | 2,186,341 | 43,048 | 421,708 | 11,475 | - | 55,772 | 2,718,344 |
| Unallocated assets | - | - | - | - | - | - | 46,139 |
| Segment's liabilities | 15,149 | 62,072 | 1,770 | 18,514 | - | 18,415 | 115,920 |
| Unallocated liabilities | - | - | - | - | - | - | 436,194 |
| Capital additions | 164,224 | - | 2,974 | - | - | 1,989 | 169,187 |
| Unallocated capital additions | - | - | - | - | - | - | 936 |
| Depreciation and amortization | 119,241 | 136 | 16,300 | 11 | - | 1,954 | 137,642 |
| Unallocated depreciation and amortization | - | - | - | - | - | - | 9,910 |
| Impairment losses recognized in profit or loss | 1,250 | - | (1) | - | - | 86 | 1,335 |
| Unallocated impairment losses recognized in profit or loss | | | | | | | 547 |

(Continued)

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22. Business and geographical segments (continued)

As of 31 December 2006 and for the year then ended the information about segments consisted of the following:

| 2006 | Business segments | | | | | | Total |
|-----------------------------------------------------------------------------------------------------|--------------------------|-------------------|------------------------|--------------------|----------------|----------------------------|------------------|
| | Electricity transmission | Electricity trade | Electricity generation | Electricity export | Nuclear power | Design and repair services | |
| Income | 363,117 | 505,078 | 66,327 | 256,026 | - | 46,002 | 1,236,550 |
| <i>Incl. internal turnover among Company segments</i> | 23,435 | 25,271 | 66,327 | 136,609 | - | - | 251,642 |
| Income after elimination of internal turnover among Company segments | 339,682 | 479,807 | - | 119,417 | - | 46,002 | 984,908 |
| <i>Incl. internal turnover among Group companies</i> | - | - | - | - | - | 4,642 | 4,642 |
| Income after elimination of internal turnover among Group companies | 339,682 | 479,807 | - | 119,417 | - | 41,360 | 980,266 |
| Expenses | 323,178 | 519,530 | 64,605 | 248,158 | 2,187 | 44,871 | 1,202,529 |
| <i>Incl. internal turnover among Company segments</i> | 34,587 | 157,450 | 28,289 | 31,329 | - | - | 251,655 |
| Expenses after elimination of internal turnover among Company segments | 288,591 | 362,080 | 36,316 | 216,829 | 2,187 | 44,871 | 950,874 |
| <i>Incl. internal turnover among Group companies</i> | 2,226 | - | - | - | - | 2,397 | 4,623 |
| Expenses after elimination of internal turnover among Group companies | 286,365 | 362,080 | 36,316 | 216,829 | 2,187 | 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 | 247,682 | - | - | 893,466 |
| Repair and maintenance expenses | 27,009 | 35 | 5,421 | 35 | - | 1,717 | 34,217 |
| Depreciation and amortization | 134,667 | 507 | 15,859 | 15 | - | 1,970 | 153,018 |
| Wages, salaries, social insurance and accrued vacation reserve | 36,953 | 433 | 8,560 | 323 | 146 | 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 | 1,385 | 290 | 65 | - | 657 | - | 2,397 |
| Other | 10,860 | 2,993 | (299) | 78 | 1,384 | 2,130 | 17,146 |
| Profit (loss) from ordinary activities (before elimination of internal turnover) | 39,939 | (14,452) | 1,722 | 7,868 | (2,187) | 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 | 15 | - | 1,970 | 153,018 |
| Unallocated depreciation and amortization | - | - | - | - | - | - | 8,540 |
| 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)

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22. Business and geographical segments (continued)

Secondary reporting format is geographical segments. The Company exports electricity to Russia and EU countries. During 2007 the Company exported 1.9 bn kWh (in 2006 – 1.7 bn kWh) of electricity and earned MLTL 137.5 from electricity exports (in 2006 – MLTL 78.2). In addition to that, the Group exported metal structures and repair services.

For the period ended December 31, the Group and Company's sales by geographical segments consisted of the following:

| Country | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|----------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Lithuania | 1,035,621 | 973,259 | 899,849 | 860,727 |
| Russia | 49,245 | 47,031 | 39,079 | 38,164 |
| Finland | 39,683 | 39,683 | - | - |
| Estonia | 21,184 | 21,010 | 6,897 | 6,413 |
| Latvia | 29,763 | 29,735 | 33,620 | 33,602 |
| Germany | 1,218 | - | 541 | - |
| Sweden | 92 | - | - | - |
| Czech | - | - | 280 | - |
| Total: | 1,176,806 | 1,110,718 | 980,266 | 938,906 |

Besides direct exports, the Company also sells peak energy intended for export. In 2007 the sales of peak energy amounted to MLTL 9.98 (in 2006 – MLTL 10.1). Since May 2005, the Company has also exported electricity, generated on holidays and weekends. In 2007 the revenues from exported electricity, generated on holidays and weekends these sales accounted for MLTL 12.2 (in 2006 – MLTL 11.8).

23. Other operating income

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Data transmission | 11,871 | 11,871 | 11,915 | 11,915 |
| Internet services | 2,990 | 2,997 | 2,556 | 2,563 |
| Rent of facilities | 2,567 | 2,567 | 2,581 | 2,581 |
| Rent of property | 2,237 | 2,231 | 1,790 | 1,851 |
| Health and recreation services | 1,165 | 880 | 924 | 725 |
| Voice telephony services | 421 | 461 | 428 | 466 |
| IT services | 447 | 447 | 411 | 411 |
| Construction and other services | 75 | 75 | 76 | 76 |
| Gain on disposal of property, plant and equipment | 147 | 285 | 166 | 114 |
| Other income | 1,535 | 536 | 958 | 631 |
| Total other income | 23,455 | 22,350 | 21,805 | 21,333 |

24. Other operating expenses

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|-----------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Depreciation and amortization | 8,432 | 8,432 | 7,673 | 7,673 |
| IT and telecommunication expenses | 5,959 | 5,959 | 5,828 | 5,828 |
| Payroll and related expenses | 3,463 | 3,222 | 2,976 | 2,976 |
| Other employment related expenses | 1,346 | 1,346 | 1,492 | 1,262 |
| Sponsorship and charity expenses | 1,336 | 1,200 | 2,029 | 1,950 |
| Maintenance expenses | 811 | 811 | 1,268 | 1,268 |
| Repair expenses | - | - | 357 | 357 |
| Expenses related to writing-off of property plant and equipment | - | - | 3,514 | 3,514 |
| Other expenses | 2,361 | 1,284 | 1,795 | 1,304 |
| Total other expenses | 23,708 | 22,254 | 26,932 | 26,132 |

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25. Other gains (losses)

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

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---------------------------------------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Fair value gains on derivative financial instruments at fair value | - | - | 466 | 466 |
| Earnings from transfer of derivative financial instruments | - | - | 451 | 451 |
| Income from advance repayment of the borrowing | - | - | 237 | 237 |
| Earnings from transfer of securities | - | - | 9 | 9 |
| Dividends received | - | 413 | - | 208 |
| Other income | 57 | - | 105 | - |
| Foreign currency exchange loss | (380) | (373) | (92) | (83) |
| Fair value losses on derivative financial instruments at fair value | (63) | (63) | (506) | (506) |
| Impairment of investments | (59) | (606) | (416) | (2,376) |
| Borrowings servicing expenses | (68) | (68) | (82) | (82) |
| Loss from transfer of derivative financial instruments | - | - | (55) | (55) |
| Other expenses | (17) | (1) | (11) | (8) |
| Other gains (losses), net | (530) | (698) | 106 | (1,739) |

26. Related party transactions

Sales and purchases of the goods and services:

As of 31 December 2007 and during the year ended 31 December 2007, the 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 | 48,614 | 53,993 | 429,268 | 499,160 |
| Associates | 786 | 3,446 | 11,369 | 345 |
| Total | 49,400 | 57,439 | 440,637 | 499,505 |

As of 31 December 2007 and during the year ended 31 December 2007 the 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 | 48,601 | 51,564 | 429,156 | 485,949 |
| Subsidiaries | 1,489 | 12 | 7,472 | 409 |
| Associates | 786 | 3,256 | 11,369 | 118 |
| Total | 50,876 | 54,832 | 447,997 | 486,476 |

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

| Related parties | Accounts payable | Accounts payable | Acquisitions | 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 |

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

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26. Transactions with related parties (continued)

Compensation to key management personnel

For the year ended December 31, the Company's compensation to key management personnel consisted of the following:

| | <u>2007</u> | <u>2006</u> |
|------------------------------------------------------------|-------------|-------------|
| Remuneration of the management | 1,383 | 1,159 |
| Other amounts paid to managers (bonuses for board members) | 70 | 50 |
| Number of managers | 12 | 12 |

Management consists of Board members, heads of administrations and their deputies, chief accountants

27. Basic and diluted earnings per share

For the year ended December 31, earnings per share equaled:

| | <u>2007</u> | <u>2006</u> |
|----------------------------------------------------------|-------------|-------------|
| Net profit attributable to equity holders of the Company | 48,387 | 18,705 |
| Weighted average number of shares | 689,515,435 | 689,515,435 |
| Basic and diluted earnings per share (LTL) | 0.07 | 0.03 |

28. Dividends per share

Dividends per share consisted of the following:

| | <u>For the financial year ended 31 December 2006</u> | <u>For the financial year ended 31 December 2005</u> |
|-------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|
| Dividends declared | 8,154 | 8,100 |
| Weighted average number of shares | 689,515,435 | 689,515,435 |
| Dividends declared per share (LTL) | 0.01 | 0.01 |

29. Financial risk management

The Group's companies are facing financial risks in their operations, i.e. credit risk, liquidity risks and market risk (risks of foreign currency, interest rate in relation to fair value and cash flows, as well as the securities price risk). In managing the aforesaid risks, the Group's companies seek to reduce the effect of factors which could negatively impact financial results of their operations.

Financial risks of the Company are managed by its Finance Department abiding by the principles of Financial Risk Management approved by Company's management board at 3 March 2004.

Credit Risk

As of 31 December 2007 and 2006, the credit risk was related to:

| | <u>Group 31 December 2007</u> | <u>Company, 31 December 2007</u> | <u>Group 31 December 2006</u> | <u>Company, 31 December, 2006</u> |
|------------------|---------------------------------------|------------------------------------------|---------------------------------------|-------------------------------------------|
| Financial assets | 153,621 | 133,096 | 117,592 | 106,264 |

Financial assets consist of trade receivables, other receivables, term deposits, cash and cash equivalents.

The credit risk of the Group and the Company related to the amounts receivable is rather limited because the main buyers are reliable customers.

Neither the Group nor the Company have significant credit risk concentration, because credit risks are spread between 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.

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29. Financial risk management (continued)

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 |
| AB DnB Nord bank | A | F1 |
| Nordea Bank Finland Plc, Lithuanian branch | AA- | F1 |

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 |
| Nordea Bank Finland Plc. , Lithuanian Branch | Aa1- | P-1 |

As of 31 December 2007 and 2006 the majority of impaired financial assets of the Group and the Company consisted of trade receivables from Ekranas AB (in the amount of LTL'000 9,612, which is fully provided for), that went bankrupt at the date of the financial statements.

As of December 31 the ageing analysis of the Group's and the Company's financial assets that were past due but not impaired consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|----------------------------|----------------|-----------------|---------------|-----------------|
| Paid on due date | 109,360 | 94,078 | 94,169 | 87,730 |
| Overdue up to 30 days | 11,464 | 10,883 | 719 | 382 |
| Overdue from 30 to 60 days | 427 | 106 | 828 | 13 |
| Overdue from 60 to 90 days | 22 | - | 11 | - |
| Overdue more than 90 days | 97 | - | 47 | - |
| Carrying amount | 121,370 | 105,067 | 95,774 | 88,125 |

Liquidity risk

The liquidity risk is managed by planning the cash flows of the Group. In order to minimize the liquidity risk, cash flow forecasts are prepared. Overdraft and credit line agreements are used to manage the difference between the risks of late collection 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.

The following table details the Group's and Company's contractual maturity for their non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

| The Group | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|----------------------------------|---------------------|--------------------------|--------------------------|--------------|
| As of 31 December 2007 | | | | |
| Borrowings and bonds | 6,018 | 48,116 | 43,607 | 2,067 |
| Obligations under finance leases | 120 | - | - | - |
| Trade and other payables | 198,581 | - | - | - |
| As of 31 December 2006 | | | | |
| Borrowings and bonds | 20,581 | 5,085 | 69,943 | 21,308 |
| Obligations under finance leases | 275 | 120 | - | - |
| Trade and other payables | 175,131 | - | - | - |

(Continued)

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29. Financial risk management (continued)

| The Company | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|-------------------------------|---------------------|--------------------------|--------------------------|--------------|
| As of 31 December 2007 | | | | |
| Borrowings and bonds | 6,018 | 48,116 | 43,607 | 2,067 |
| Trade and other payables | 182,264 | - | - | - |
| As of 31 December 2006 | | | | |
| Borrowings and bonds | 20,581 | 5,085 | 69,943 | 21,308 |
| Trade and other payables | 166,333 | - | - | - |

As of 31 December 2007 the Group and the Company's net working capital was negative and amounted to LTL'000 37,703 and LTL'000 48,992 respectively. The Group's current ratio was 0.82, the Company's – 0.57. The Group's quick ratio was 0.74, the Company's – 0.7.

As of 31 December 2006 the Group 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.

Market risk

Interest rate risk

The income and cash flows of the Group companies are not exposed significantly to the fluctuations of the market interest rate. The interest rate risk relates mainly to long-term borrowings. The borrowings issued at floating interest rates expose the Group to cash flow interest rate risk. The borrowings issued at fixed interest rates expose the Group to fair value interest rate risk.

According to the principles of financial risk management approved by the Group's companies, the interest expenses must be forecasted with sufficient precision for a period that is not shorter than the period of establishing the price cap 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 at the fixed interest rate, the remaining borrowings – at the floating interest rate.

The Group's companies have borrowings with fixed and floating interest rates, the latter related to EURIBOR, EUR LIBOR and VILIBOR.

The Company manages the interest rate risk by entering into interest swap agreements, by changing a floating interest rate into a fixed interest rate. The Company takes long-term borrowings from banks with the floating interest rate and concludes respective swap agreements for changing the floating interest rate to fixed interest rate by ensuring lower fixed interest rates as compared to those which would be applicable if the loan agreements with the fixed interest rate were directly concluded with the banks.

An interest rate swap agreement is a bilateral agreement according to which the parties undertake to swap the cash flows of interest calculated for the period agreed when entering into transaction on the agreed amount. Usually, according to this agreement the cash flows of one financial instrument (either with fixed or floating interest rate) are changed over to the cash flows from other financial instrument (either with fixed or floating interest rate). In such transaction both parties can pay the calculated amount of interest or one of the parties can pay the difference between the interest amounts.

Interest swap agreements are concluded when the increase of the interest base-rate is projected in the future and hence the interest payable by the Company at the floating interest rate could increase respectively, or when the decrease of interest base-rate is projected in the future and hence the interest payable by the Company at the fixed interest rate could increase respectively.

With an aim to manage the interest rate fluctuation risk, at the end of 2003 the Company entered into the interest rate swap agreement with Nordea Bank Finland Plc., Lithuanian branch, with maturity on 30 June 2007.

If in 2007 the interest rates on the Group and the Company's borrowings were higher by 1 basis point, the net profit of the Group and the Company would have decreased by 0.7% (in 2006 – 2.7%). If in 2007 the interest rates on the Group and the Company's borrowings were lower by 1 basis point, the Group's and the Company's net profit would have been higher by 0.7% (in 2006 – 2.7%).

Foreign exchange risk

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

Starting from 2 February 2002, Litas is pegged to EUR, therefore the Group's and the Company's equity is not sensitive to changes in foreign currencies exchange rates.

The Group's 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 2007 and in 2006.

(Continued)

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29. Financial risk management (continued)

As of 31 December 2007 monetary assets and liabilities in various currencies consisted of the following:

| | Group | | | Company | | Net on-balance sheet financial position |
|--------------|----------------|----------------|-----------------------------------------|----------------|----------------|-----------------------------------------|
| | Asset | Liabilities | Net on-balance sheet financial position | Asset | Liabilities | |
| LTL | 134,372 | 457,600 | (323,228) | 115,930 | 440,676 | (324,746) |
| EUR | 21,633 | 94,448 | (72,815) | 19,146 | 94,447 | (75,301) |
| USD | 167 | 14 | 153 | 157 | 14 | 143 |
| RUR | 221 | 53 | 168 | - | - | - |
| Total | 156,393 | 552,115 | (395,722) | 135,233 | 535,137 | (399,904) |

As of 31 December 2006 financial asset and liabilities in various currencies were as follows:

| | Group | | | Company | | Net on-balance sheet financial position |
|--------------|----------------|----------------|-----------------------------------------|----------------|----------------|-----------------------------------------|
| | Asset | Liabilities | Net on-balance sheet financial position | Asset | Liabilities | |
| LTL | 117,413 | 416,067 | (298,654) | 107,833 | 406,453 | (298,620) |
| EUR | 2,654 | 121,563 | (118,909) | 735 | 121,526 | (120,791) |
| USD | 63 | 445 | (382) | 49 | 445 | (396) |
| RUR | 62 | 59 | 3 | - | - | - |
| LVL | 13 | 4 | 9 | - | - | - |
| Total | 120,205 | 538,138 | (417,933) | 108,617 | 528,424 | (419,807) |

Risk of security prices

The Group's companies have not acquired any securities (shares, bonds, etc.) for trading securities thus they do not face the risks related to security prices.

The Group's companies have direct control over their subsidiaries and take part in management of associates (Note 6 *Investments*). Investments in these companies are accounted at acquisition cost in the financial statements of the Company which is adjusted by impairment losses, if any. Investments in associates in Group's consolidated financial statements are accounted using the equity method by adjusting their carrying amounts by the share of the profits or losses attributable to the Group. The increase / decrease in the carrying amount of these investments directly impact the financial results of the Group. The Company impacts the results of its subsidiaries or associates by taking part in the formation of the policy of operations managements of these companies.

30. 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 September 2014 respectively.

As of 31 December 2007 bank Hansabankas AB issued the following guarantees:

1. Beneficiary - Vilnius Municipality, amount - LTL'000 16, type - performance security, maturity - 2 December 2009;
2. Beneficiary - Vilniaus Universitetas, amount - LTL'000 16, type - bid security, maturity - 14 February 2008;
3. Beneficiary - Ministry of Environment of the Republic of Lithuania, Agency of Environmental Project Management, amount - LTL'000 2112, type - advance payment security, maturity - 30 September 2008;
4. Beneficiary - Ministry of Environment of the Republic of Lithuania, Agency of Environmental Project Management, amount - LTL'000 422, type - performance security, maturity - 30 September 2008;

In 2007 Nordea Bank Finland Plc. Lithuanian Branch issued the following guarantees, which were valid as of 31 December 2007:

1. Beneficiary - Fabryka Kotlow RAFAKO S.A., amount - EUR 55,838 (LTL 192,798), type - performance security, maturity - 1 October 2008;
2. Beneficiary - Fabryka Kotlow RAFAKO S.A., amount - EUR 56,756 (LTL 195,966), type - performance security, maturity - 30 March 2009.
3. Beneficiary - Fabryka Kotlow RAFAKO S.A., amount - EUR 58,168 (LTL 200,842.47), type - performance security, maturity - 15 October 2009.

Legal proceedings

At the date of preparation of these financial statements an arbitration dispute is being held between the Company and a foreign customer regarding the performance of the agreement on the delivery of electricity. The parties disagree about orders, submitted under this agreement and obligation of supply of electricity volumes. The dispute relates to orders submitted by the foreign customer during the period from January 2007 to February 2008. In the opinion of the Company's management, the amount claimed for arbitration is unsubstantiated and the estimation of actual losses (and the obligation) is quite complicated at the current moment, therefore the Company did not account for any provisions related with the case mentioned above in these financial statements.

31. Subsequent events

At 20 December 2007 an extraordinary shareholders meeting of Geoterma UAB was held where a resolution was reached to reduce share capital of Geoterma UAB from LTL 18,652,350 to LTL 8,405,910 by voiding 1,024,644 ordinary shares with par value of 10 (ten) litas each in order to settle accumulated losses. At the same time there was made a decision to increase share capital of the company from LTL 8,405,910 to LTL 21,305,910 by additional contributions by issuing 1,290,000 ordinary nominal shares with par value of 10 (ten) litas each. Lietuvos Energija AB acquired 302,423 shares and paid LTL 3,024,230. At 7 January 2008 this sum was settled off on the basis of the Agreement on requirement of acceptance No. G-08, as Lietuvos Energija AB contribution in cash for acquired shares, and for Geoterma UAB – as a repayment of loan, which was granted by Lietuvos Energija AB. At 24 January 2008 the registry of legal entities recorded changes of Geoterma UAB articles of association, related with the changes of the share capital mentioned above.

At 1 February 2008, a Law No.X-1446 on revision and amendment of Law of the Republic of Lithuania on Nuclear Power Plant, Articles 8, 10, 11, 20 was adopted, which stipulates the establishment of a national investor for the new nuclear power plant project not on the basis of Lietuvos Energija AB, as it was stipulated in the previous law, but on the basis of a new parent company.

At 12 February 2008 CEOs of electricity transmission system operators Lietuvos Energija and PSE Operator (Poland) signed a shareholders agreement on joint venture, which will implement the interconnection project of Lithuanian and Polish power systems. Lietuvos Energija and PSE Operator will each own 50% of the joint venture shares. It is projected that the joint venture will first prepare a technical project, revise and approve routes of the new power lines, conduct an environmental impact assessment, other preparatory works. The newly established joint venture will be managed by a Lithuanian representative. The company will be registered in Poland, Warsaw. It will start its operations in April, 2008.

The interconnection project of Lithuanian and Polish power systems will make it possible to complete the Baltic Energy Ring, interconnecting Lithuanian, Latvian, Estonian, Finnish, Swedish and Polish Power systems, which will help ensure the operation security and reliability of Baltic power grids, their integration into common European power market and connection to UCTE system, while for Poland it will help secure power supply for the country's north-eastern region. In order to interconnect the power grids, it is projected to construct 154 km high-voltage (400 kV) double-circuit power transmission line from Alytus to Elk (Poland). According to preliminary evaluation, the project can be finished by 2012-2015. The project implementation is estimated at MEUR 237 of investments – MEUR 71 in Polish territory and MEUR 166 – in Lithuanian territory.

In order to ensure transmission capacity and cross-border flows, it is necessary to reinforce not only Lithuanian, but also Polish domestic power grids. This will require additional investments: MEUR 371 – in Poland and MEUR 95 – in Lithuania. The investments for the reinforcement of domestic grids must be provided by the project parties themselves. The reinforcement of domestic power grids in Poland and Lithuania will be done in stages. This project has been listed as a priority project of the European Union.
