LIETUVOS ENERGIJA

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

23/11/2007 Ref. No 1R-8266

## STATEMENT OF THE RESPONSIBLE PERSONS

Abiding by the provisions of Article 22 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 interim financial statements for the H1 of 2007, prepared in accordance with the International Financial Reporting Standards effective in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of Lietuvos Energija AB.

We also confirm that the Interim Consolidated Report for the H1 of 2007 gives a true and fair view of the company's operating activities and business development forecasts.

AKCINĖ BENDROVĖ LIETUVOS ENERGIJA • VILNIUS • LIETUVOS RESPUBLIKA • LIETUVOS ENERGIJA

Rimantas Šukys

Finance Director

Sigitas Baranauskas

Chief Financier

Company code 220551550 VAT code LT205515515 Address: Žvejų g. 14, LT-09310 Vilnius LITHUANIA (LIETUVA)
Phone +370 5 262 68 22, 278 20 82, fax +370 5 212 67 36, e-mail: info@lietuvosenergija.lt, website: www.lietuvosenergija.lt
Register of Legal Entities administered by the State Enterprise Centre of Registers, V. Kudirkos g. 18, LT-03105 Vilnius

**LIETUVOS ENERGIJA AB**

# Interim Consolidated Report for H1 2007

**VILNIUS, August 2007**

## 1. Reported period covered by the Report

The Consolidated Interim Report of Lietuvos Energija AB (hereinafter referred to as the „Company“) and its subsidiaries (the Company and its subsidiaries hereinafter are jointly referred to as the „Group“) has been prepared for H1 2007.

## 2. The Issuer and its contact information

Name of the Issuer: Lietuvos Energija AB;
Company code: 220551550;
VAT code: LT205515515
Legal – organisational form: public limited liability company.
The Company was registered on December 4, 1995;
The Company was reregistered on April 13, 1999, December 31, 2001 and January 14, 2005;
The Keeper of Register – State Enterprise *Centre of Registers;*
The Company's registration No BĮ 99-7.
Authorised capital: LTL 689 515 435
Registered address: Žvejų g. 14, LT-09310 Vilnius, Republic of Lithuania;
Phone: + 370 5 278 20 82;
Fax: + 370 5 212 67 36;
E- mail: info@lietuvosenergija.lt
Website: www.lietuvosenergija.lt

## 3. Type of core activities

In 2007 the main activities of the Company are 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 Articles of Association of the Company.

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

As of March 31, 2007 the Company had 2 branches: Kaunas Hydro Power Plant (HPP) and Kruonis Pumped Storage Plant (PSP). The branches have been operating according to the regulations approved by the Board of the Company for every branch individually.

## 4. Information on contracts with intermediates of public offering

On December 29, 2006, the bank AB Hansabankas was awarded a contract for the service of account management of the Issuer's securities and personal securities. The contract is valid till December 31, 2008.

On August 10, 2006, Lietuvos Energija AB and AB SEB Vilniaus Bankas entered into the agreement on distribution of debenture bonds (arrangement of the issue).

# 5. Data about trade in the Issuer‘s securities in the regulated markets

Lietuvos Energija AB shares are traded at Vilnius Stock Exchange (VVPB). Issued shares of the Company are listed in the VVPB Current Trading List. The Company issued 689 515 435 common nominal shares with par value of LTL 1 (one litas) (ISIN code – LT 0000117681).
On September 29, 2006 Lietuvos Energija AB issued 75000 bonds with the maturity of 1096 days, par value of EUR 100, total par value of EUR 7 500 000 (seven million five hundred thousand) and with annual interest rate of 4.06%. The bonds were listed in the Trading List of Debenture Bonds. (ISIN code LT1000403311).

# 6. Information on the Issuer‘s subsidiaries

As of June 30, 2007 the Company had direct control over the three subsidiaries: Energetikos pajėgos UAB, Kauno energetikos remontas UAB, and Kruonio investicijos UAB. The Company has control over 100 percent of their shares. Indirectly, through Kauno energetikos remontas UAB, the Company had majority of votes in Gotlitas UAB, Rygas Energetikas Remonts SIA and Kaliningradskij Energoremont OOO.

In preparing these consolidated financial statements for the H1 2007, Lietuvos Energija AB consolidated financial statements of Kauno energetikos remontas UAB, Gotlitas UAB, Rigas energetikas remonts SIA, Kaliningradskij energoremont OO, Energetikos pajėgos UAB and Kruonio investicijos UAB.

| Name of the company | Legal form | Date and venue of registration | Company code | Registered address | Telephone, fax, e-mail |
|---|---|---|---|---|---|
| Energetikos pajėgos UAB | Limited company | 2003 11 26 Register of Companies of the Republic of Lithuania | 136046431 | T.Masiulio g. 16D, Kaunas | Tel.(37)309897<br>Fax (37)309803<br>www.energetikospajegos.lt |
| Kruonio investicijosUAB | Limited company | 2007 01 18 Register of Companies of the Republic of Lithuania | 300634954 | Kruonio II k., Kaišiadorių raj. | Tel.8 68717314 |
| Kauno energetikos remontas UAB | Limited company | 2000 04 27 Register of Companies of the Republic of Lithuania | 135617795 | Chemijos g. 17, Kaunas | Tel.(37)456702<br>Fax (37)452948<br>www.ker.lt |
| Gotlitas UAB | Limited company | 2003 09 30 Register of Companies of the Republic of Lithuania | 136031358 | R.Kalantos g. 119, Kaunas | Tel.(37)370390 |
| Rigas energetikos remontas SIA | Limited company | 1996 07 30 Register of Companies of the Republic of Latvia | 50003303501 | p.n.Acone, Salaspils l.t., Rygas raj.,Latvija | Tel.371 6 7149153<br>Fax 371 6 7139607 |
| Kaliningradskij remont OOO | Limited company | 2001 10 03 Register of Companies of the Kaliningrad Region | SP-1127/1123 | Jaltinskaja g. 66, Kaliningrad | |

| Company | Part of shares | Core activities |
|---|---|---|

| | **controlled by the Group** | |
|---|---|---|
| Energetikos pajėgos UAB | 100 percent | Design of energy facilities |
| Kauno energetikos remontas UAB | 100 percent | Repairs of energy equipment, production of metal structures |
| Kruonio investicijos UAB | 100 percent | Development of public and recreational facilities |
| Gotlitas UAB | 100 percent | Accommodation services, trade |
| Rygas energetikas remonts SIA | 100 percent | Repairs of energy equipment |
| Kaliningradskij energoremont OOO | 99 percent | Repairs of energy equipment |

Apart from the above mentioned subsidiaries, the Company was involved in management of the following associates: Nordic Energy Link AS (25 percent of shares); Baltijas energosistemu dispečeru centrs BO SIA (hereinafter – DC Baltija) (33.33 percent of shares); Geoterma UAB (23.44 percent of shares). The DC Baltija liquidation procedure was completed in June 2007.

## 7. Information on the results of the Issuer's operating activities

The Company‘s revenues in the H1 2007 equalled LTL 555.9m, an increase of 20.9% as compared to the H1 2006 (LTL 459.7m).

The Company‘s income for the H1 2007 before income tax was LTL 41.4 m, an increase of 31.2 % as compared to the H1 2006, when the income was LTL 31.6m. The net income was LTL 33.8m and LTL 25.3m respectively (an increase of 33.4 %).

The EBITDA in the H1 2007 was up by 2.5 %, up to LTL 117.1m (in the H1 2006, EBITDA equalled LTL 114.2m), but the EBITDA margin fell from 24.8 % to 21 %.

The main risk factors are described in the explanatory notes to Interim Consolidated Financial Statements.

More information about the Company's operating and financial results is provided in Lietuvos Energija AB Interim Consolidated Financial Statements.

## 8. Main events of the reported period, operation plans and forecasts

The project for the construction of a new nuclear power plant in Lithuania is regulated by the Law No X-1231 of the Republic of Lithuania dated June 28, 2007. The Law grants a status of the national investor for Lietuvos Energija AB which has expressed a private initiative to invest in the project for construction of the new nuclear power plant.

On July 31, 2007 a working group, composed of representatives of Lietuvos Energija AB and Polskie Sieci Elektroenergetyczne (Poland), signed a final document of a feasibility study of interconnection of Lithuanian and Polish power systems, confirming that the project is technically, legally and economically feasible, provided that not less than 75 per cent of its implementation costs are covered by funds of the European Union.

On January 4, 2007 trade in electricity via the undersea cable ESTLINK of 350 MW capacity was started. The ESTINK interconnected the Baltic and Scandinavian power systems. The company invested EUR 5.5 m in the project and holds 25 percent of shares of the cable operator‘s company - Nordic Energy Link AS.

On February 6, 2007 Lietuvos Energija and Swedish Transmission System Operator Svenska Kraftnät signed a contract with a Swedish company SWECO International, the winner of the tender for procurement of services on preparation of feasibility study for an interconnection between Lithuanian and Swedish power systems. The study will evaluate a possibility of interconnection between Lithuanian and Swedish transmission grids by constructing a 350 km long, approx. 700-1000 MW capacity undersea cable across the Baltic Sea. This interconnection plays an important role while increasing security and reliability of energy supply in the Baltic Region as well as the integration of the Baltic States into the electricity market of the European Union. The completion of the study is projected in September 2007.

In October 2006 the Company‘s Board approved a preliminary financing plan of the Company for 2007. It is projected that the financial indicators of the company in 2007 will not go down as compared to those which were reached in 2006.

The subsidiaries also plan to reach operating results which will be not lower than in 2006.

Taking into account that the Law on construction of a new nuclear power plant of the Republic of Lithuania granted a status of the national investor for the Company, and assigned the rights for the Government of Lithuania and the shareholder having control over the distribution company VST shares to invest in the authorised capital of the national investor - Lietuvos Energija AB, it is projected that in the nearest future the range of operations performed by the Company can be expanded. At the moment of preparation of this Report, the Government of Lithuania and the shareholder having control over the distribution company VST shares started negotiations.

## 9. Structure of the Issuer‘s share capital

On February 21, 2002, LTL 689 515 435 authorised capital of Lietuvos Energija AB was registered in the Register of Companies, which was divided into 689 515 435 registered shares with the parl 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:

1. Receive a part of the Company’s profit (dividend);
2. Receive a part of the property of the Company under liquidation;
3. Receive the shares for free if the authorised capital has been increased from the Company’s funds, except the cases provided otherwise in the Company Law of the Republic of Lithuania.
4. 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 resolves not to grant to all shareholders the priority right to acquire the shares issued by the Company.
5. Lend moneys for 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.

6. Transfer all the shares or a part thereof into the ownership of other persons;
7. 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.
8. Other property rights set forth in the Laws.

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

1. Attend the meetings of shareholders;
2. Vote at the general shareholders meeting in accordance with the rights granted by the shares. One ordinary registered share shall grant one vote;
3. Obtain information on the Company's activity to the extent defined by the Laws.
4. 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.
5. Other non-property rights as prescribed by the Laws.

## 10. Restrictions on transfer of securities

Not applicable.

## 11. Shareholders

Total number of shareholders – 5 195. The shareholders who on June30, 2007 owned more than 5 percent of Lietuvos Energija AB share capital (689 515 435):

| Title | Type of shares | No of shares | Portion of authorised capital (%) | Portion of votes granted by the authorised capital (%) |
|---|---|---|---|---|
| The state represented by the Ministry of Economy of the Republic of Lithuania, Code 188621919, Gedimino pr.38/2, LT-01104 Vilnius | Ordinary nominal shares | 665 459 570 | 96.51 | 96.51 |

## 12. Shareholders having special rights to execute control and description of these rights

Not applicable

## 13. All limitations on the voting rights

Not applicable

## 14. All agreements among shareholders which are known to the Issuer and which may result in limitations on transfer of securities and/or voting rights

Not applicable

## 15. Employees

Number of the Group employees by the Group companies (as of June 30, 2007):

| **Company** | **Number of Employees as of 30/06/2007** | **Number of Employees as of 31/12/2006** |
|---|---|---|
| Lietuvos energija AB | 1 146 | 1 142 |
| Energetikos pajėgos UAB | 21 | 19 |
| Kauno energetikos remontas UAB | 578 | 597 |
| Kruonio investicijos UAB | 1 | - |
| Gotlitas UAB | 20 | 20 |
| Rygas energetikas remonts SIA | 1 | 1 |
| Kaliningradskij energoremont OOO | 19 | 18 |
| **Total** | **1 786** | **1 797** |

| | **2007** | | **2006** | |
|---|---|---|---|---|
| | Average number of employees | Average salary, LTL | Average number of employees | Average salary, LTL |
| Workers | 408 | 1 893 | 416 | 1 808 |
| Officers | 693 | 3 148 | 693 | 2 893 |
| Executive Officers | 6 | 17 946 | 6 | 16 168 |
| **TOTAL** | **1 107** | **2 760** | **1 115** | **2 560** |

The Collective Agreement of Lietuvos Energija AB was signed on May 22, 2007. The Agreement provides for additional social guarantees: the Employer undertakes to pay the allowance in the set amount in the case of death of an employee or a member of his/her immediate family. Family allowances are also paid when a child is born, on the occasion of anniversary, for employees who have got three and more children and in other similar cases provided for in the Collective Agreement.

## 16. Procedure for amendment of the Issuer‘s Articles of Association

Excluding the cases proscribed by the Law on Joint Stock 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. It is signed by the representative authorised by the General Shareholders Meeting.

## 17. The Issuer‘s management bodies

The Company‘s management bodies are as follows:

1. General Shareholders meeting;
2. Supervisory Council;
3. Board;
4. Chief Executive officer.

The competencies of the General Shareholders meeting does not differ from those prescribed by the Law on Joint Stock Companies.

The Supervisory Council of the Company is a collegiate body, the activities of which are 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 subsidiary, the head of the patronising 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 Joint Stock Company Law 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 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 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 Joint Stock Company Law and the Civil Code of the Republic of Lithuania.

The Chief Executive Officer of the Company is its General Director. 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 the Chief Executive Officer of the Company who organizes current operations of the Company and performs other functions prescribed by the laws of the Articles of Association.

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 Law, these Articles of Association and work 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.

## 18. 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 | 216 964 (0.0315 %) |
| 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 | - | 216 964(0.0315 %) |
| Chief Financier | Sigitas Baranauskas | 1998-07-27 | - | - |

Information on total and average amounts of remuneration, bonuses and other payments from profit per person during the reported period:

| | Salaries in January-June 2007 (LTL) | Yearly premium for operations in 2006 (LTL) | Bonuses in 2006 (LTL) | Dividends in 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 | 82 194 | 17 732 | - | 1 283 | 101 209 |
| Totally to all members of the Company’s Management Board | 164 388 | 35 465 | - | 2 566 | 202 419 |

## 19. Information regarding compliance with the Corporate Governance Code

In its Annual Report Lietuvos Energija AB notified about the implementation of the provisions of the Corporate Governance Code for the Companies Listed on the Vilnius Stock Exchange and gave the reasons for non-compliance with its specific items. In the H1 2007 the situation remained unchanged.

## 20. Data about publicly disclosed information

In the H1 2007, the Company published the following notices about the essential 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 April 26, 2007;
2007-04-26 The General Shareholders Meeting was held on April 26, 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

All information about the essential events published in the H1 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*.

# LIETUVOS ENERGIJA AB

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2007

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Interim financial statements signed on 30 August, 2007

Finansų direktorius
Rimantas Šukys

Rymantas Juozaitis
General Director

Sigitas Baranauskas
Chief Financier

**BALANCE SHEETS**
**As of June 30, 2007**
**All amounts are in LTL thousands, unless otherwise stated**

| | Notes | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets:** | | | | | |
| Intangible assets | 4 | 5,632 | 5,575 | 6,822 | 6,751 |
| Property, plant and equipment | 5 | 2,537,059 | 2,511,226 | 2,548,338 | 2,522,033 |
| Investments in subsidiaries | 6 | - | 34,116 | - | 31,755 |
| Investments in associates | 6 | 20,869 | 20,869 | 21,172 | 21,172 |
| Other receivables | 7 | 7,740 | 7,740 | 7,792 | 7,792 |
| Other financial assets | | 49 | 15 | 344 | 309 |
| **Total non-current assets** | | **2,571,349** | **2,579,541** | **2,584,468** | **2,589,812** |
| **Current assets:** | | | | | |
| Inventories | 8 | 14,185 | 8,279 | 12,702 | 6,393 |
| Prepayments | | 994 | 768 | 2,613 | 2,353 |
| Trade receivables | 9 | 103,600 | 92,017 | 95,774 | 88,125 |
| Other receivables | 10 | 7,741 | 7,671 | 9,088 | 8,990 |
| Other assets | | 133 | 114 | 686 | 678 |
| Term deposits | 11 | 1,150 | - | 150 | - |
| Cash and cash equivalents | 12 | 4,569 | 1,997 | 4,788 | 1,357 |
| **Total current assets** | | **132,372** | **110,846** | **125,801** | **107,896** |
| **TOTAL ASSETS** | | **2,703,721** | **2,690,387** | **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 | 70,732 | 68,952 | 70,407 | 68,952 |
| Other reserves | 15 | 1,404,922 | 1,402,660 | 1,394,560 | 1,392,429 |
| Retained earnings | | 32,589 | 35,350 | 17,651 | 18,385 |
| Foreign currency translation reserve | | (6) | - | (6) | - |
| **Equity attributable to equity holders of the Parent** | | **2,197,755** | **2,196,480** | **2,172,130** | **2,169,284** |
| Minority interest | | 1 | - | 1 | - |
| **Total equity** | | **2,197,756** | **2,196,480** | **2,172,131** | **2,169,284** |
| **Non-current liabilities:** | | | | | |
| Borrowings | 16 | 59,383 | 59,383 | 70,440 | 70,440 |
| Issued bonds | 18 | 25,896 | 25,896 | 25,896 | 25,896 |
| Obligations under finance leases | 17 | 16 | - | 119 | - |
| Grants | 19 | 31,581 | 31,518 | 24,340 | 24,265 |
| Deferred taxes | 21 | 214,302 | 213,921 | 220,034 | 219,622 |
| **Total non-current liabilities** | | **331,178** | **330,718** | **340,829** | **340,223** |
| **Current liabilities:** | | | | | |
| Borrowings | 16 | 2,022 | 2,022 | 20,581 | 20,581 |
| Obligations under finance leases | 17 | 229 | - | 263 | - |
| Current income tax liabilities | | 9,774 | 9,610 | 1,334 | 1,287 |
| Trade and other payables | 20 | 162,762 | 151,557 | 175,131 | 166,333 |
| **Total current liabilities** | | **174,787** | **163,189** | **197,309** | **188,201** |
| **TOTAL EQUITY AND LIABILITIES** | | **2,703,721** | **2,690,387** | **2,710,269** | **2,697,708** |

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

**INCOME STATEMENTS**
**As of June 30, 2007**
**All amounts are in LTL thousands, unless otherwise stated**

| | Notes | Group H1 2007 | Company H1 2007 | Group H1 2006 | Company H1 2006 |
|---|---|---|---|---|---|
| Sales | 22 | 544,390 | 517,766 | 449,810 | 432,938 |
| Operating expenses | 22 | (500,419) | (474,538) | (415,265) | (398,579) |
| Other operating income | 23 | 11,482 | 10,790 | 9,852 | 9,746 |
| Other operating expenses | 24 | (10,926) | (10,062) | (10,451) | (10,238) |
| Other gains (losses), net | 25 | (206) | (113) | 630 | (77) |
| **OPERATING PROFIT** | | **44,321** | **43,843** | **34,576** | **33,790** |
| Finance income | | 302 | 277 | 371 | 330 |
| Finance costs | | (2,882) | (2,874) | (2,543) | (2,533) |
| Share of loss of associates | | (303) | - | (815) | - |
| **PROFIT BEFORE INCOME TAX** | | **41,438** | **41,246** | **31,589** | **31,587** |
| Income tax expense | 21 | (7,659) | (7,456) | (6,264) | (6,199) |
| **NET PROFIT** | | **33,779** | **33,790** | **25,325** | **25,388** |
| **ATTRIBUTABLE TO:** | | 33,779 | 33,790 | 25,325 | 25,388 |
| Equity holders of the Parent | | - | - | - | - |
| | | **33,779** | **33,790** | **25,325** | **25,388** |
| **Basic and diluted earnings per share (LTL)** | **27** | **0.05** | **0.05** | **0.04** | **0.04** |

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

**STATEMENTS OF CHANGES IN EQUITY**
**For H1 2007**
**All amounts are in LTL thousands, unless otherwise stated**

| Group | Notes | Share capital | Share premium | Legal reserve | Other reserves | Retained earnings | Foreign currency translation reserve | Equity attributable to equity holders of the Parent | Minority interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 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) |
| Transfer to reserves | 15 | - | - | 1,052 | 1,295,670 | (1,296,722) | - | - | - | - |
| Reserves used | 15 | - | - | - | (3,502) | 3,502 | - | - | - | - |
| Net profit for the period | | - | - | - | - | 25,325 | - | 25,325 | - | 25,325 |
| **Balance as of June 30, 2006** | | **689,515** | **3** | **70,407** | **1,394,671** | **24,160** | **(5)** | **2,178,751** | **1** | **2,178,752** |
| Reserves used | 15 | - | - | - | (111) | 111 | - | - | - | - |
| Net profit for the period | | - | - | - | - | (6,620) | - | (6,620) | - | (6,620) |
| Changes in capital resulting from currency exchange | | - | - | - | - | - | (1) | (1) | - | (1) |
| **Balance as of December 31, 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) |
| Transfer to reserves | 15 | - | - | 325 | 12,386 | (12,711) | - | - | - | - |
| Reserves used | 15 | - | - | - | (2,024) | 2,024 | - | - | - | - |
| Net profit for the period | | - | - | - | - | 33,779 | - | 33,779 | - | 33,779 |
| **Balance as of June 30, 2007** | | **689,515** | **3** | **70,732** | **1,404,922** | **32,589** | **(6)** | **2,197,755** | **1** | **2,197,756** |

*(continued on the following page)*

**STATEMENTS OF CHANGES IN EQUITY**
**For H1 2007**
**All amounts are in LTL thousands, unless otherwise stated**

| Company | Notes | Share capital | Share premium | Legal reserve | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 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 | - | - | - | (3,501) | 3,501 | - |
| Net profit for the period | | - | - | - | - | 25,388 | 25,388 |
| **Balance as of June 30, 2006** | | **689,515** | **3** | **68,952** | **1,392,452** | **25,389** | **2,176,311** |
| Reserves used | 15 | - | - | - | (23) | 23 | - |
| Net profit for the period | | - | - | - | - | (7,027) | (7,027) |
| **Balance as of December 31, 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 | | - | - | - | - | 33,790 | 33,790 |
| Revaluation result of non-current assets | 6 | - | - | - | 1,560 | - | 1,560 |
| Transfer of non-current assets | 6 | - | - | - | (1,560) | 1,560 | - |
| **Balance as of June 30, 2007** | | **689,515** | **3** | **68,952** | **1,402,660** | **35,350** | **2,196,480** |

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

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

**STATEMENTS OF CASH FLOWS**
**For H1 2007**
**All amounts are in LTL thousands, unless otherwise stated**

| | Group June 30 2007 | Company June 30 2007 | Group June 30 2006 | Company June 30 2006 |
|---|---|---|---|---|
| Net profit | 33,779 | 33,790 | 25,325 | 25,388 |
| ***Adjustments for non-cash expenses (income) items and other adjustments*** | | | | |
| Depreciation and amortization | 73,330 | 72,368 | 80,395 | 79,429 |
| Change in deferred income tax liabilities | (5,732) | (5,701) | (8,229) | (8,199) |
| Impairment (restoring) of assets | (51) | 281 | 4,621 | 5,436 |
| Share of loss of associated companies | 303 | - | 815 | - |
| Investments written-off | 295 | 295 | - | - |
| Income and social tax expense | 13,389 | 13,157 | 14,493 | 14,398 |
| Income from grants | (609) | (597) | (448) | (436) |
| (Profit) loss from disposal of non-current assets (excluding financial assets) | (59) | (47) | 245 | 260 |
| Elimination of financial and investment activity results: | | | | |
| - Dividends | - | (413) | - | (208) |
| - Foreign currency exchange loss (gain), net | 122 | 122 | 66 | 66 |
| - Finance costs | 2,882 | 2,874 | 2,543 | 2,533 |
| - Finance income | (302) | (277) | (371) | (330) |
| - Realized financial derivatives | 63 | 63 | 100 | 100 |
| - Costs of (income from) other financial activities | 14 | 14 | (714) | (714) |
| ***Changes in working capital*** | | | | |
| (Increase) decrease in inventories | (1,725) | (1,871) | (880) | (2,082) |
| Decrease (increase) in prepayments | 1,620 | 1,586 | (343) | (337) |
| Decrease (increase) in trade receivables | (7,945) | (4,028) | 29,028 | 26,855 |
| Decrease in other receivables | 1,376 | 1,363 | 2,979 | 2,720 |
| Decrease (increase) in other current assets | 285 | 295 | (17) | - |
| Income and social tax paid | (5,177) | (5,061) | (10,143) | (10,056) |
| (Decrease) in current trade payables and advances received | (16,079) | (15,989) | (44,896) | (40,935) |
| Increase in payroll related liabilities | 2,125 | 1,417 | 1,289 | 1,086 |
| (Decrease) in other accounts payable | 1,044 | (745) | (2,893) | (1,801) |
| ***Net cash flows from operating activities*** | ***92,948*** | ***92,897*** | ***92,965*** | ***93,173*** |
| **Cash flows from / (to) investing activities** | | | | |
| Purchases of non-current assets (excluding financial investments) | (53,009) | (53,200) | (56,039) | (55,563) |
| Proceeds on disposal of non-current assets (excluding financial investments) | 372 | 741 | 162 | 134 |
| Loan repayments received | 21 | 21 | - | - |
| Term deposits | (1,000) | - | - | - |
| Acquisition of investments | - | (802) | - | - |
| Disposal of investments | 591 | 591 | - | - |
| Dividends received | - | 413 | - | 208 |
| Interest received | 124 | 100 | 370 | 329 |
| ***Net cash flows to investing activities*** | ***(52,901)*** | ***(52,136)*** | ***(55,507)*** | ***(54,892)*** |
| **Cash flows from / (to) financial activities** | | | | |
| Loans received | 123,216 | 123,216 | 41,546 | 41,546 |
| Loans repaid | (152,832) | (152,832) | (70,189) | (70,189) |
| Repayments of obligations under finance leases | (137) | - | (249) | - |
| Dividends paid | (8,070) | (8,070) | (8,074) | (8,074) |
| Interest paid | (2,367) | (2,359) | (2,224) | (2,214) |
| Realized derivative financial instruments | (63) | (63) | (100) | (100) |
| Other cash flows from financing activities | (13) | (13) | 237 | 237 |
| ***Net cash flows to financing activities*** | ***(40,266)*** | ***(40,121)*** | ***(39,053)*** | ***(38,794)*** |
| **Net (decrease) increase in cash and cash equivalents** | **(219)** | **640** | **(1,595)** | **(513)** |
| **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** | **4,569** | **1,997** | **4,143** | **2,436** |

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

## *1. General information*

Lietuvos Energija AB is a public limited liability company registered in the Republic of Lithuania. Its head office is located in Žvejų 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.

On March 4, 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 March 27, 1991, after the restoration of Independence of the Republic of Lithuania. The Company was re-registered on April 13, 1999 at the Ministry of Economy.

The share capital of the Company did not change in 2006 and 2007 and as of June 30, 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. In 2007 and 2006 the Company did not purchase its own shares. As of June 30, 2007 the main shareholder of Lietuvos Energija AB was the state of Lithuania holding 96.51% 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 3.49% of the Company's shares are held by other shareholders.

Main activities of the Company in 2007 were as follows: transmission system operator, market operator, production of electricity and exporter of electricity. Along with these key activities, the Company is entitled to carry out any other lawful commercial-economic activities indicated in the bylaws of the Company.

Licensed activities or activities that require permits can be carried out only after obtaining the appropriate licenses or permits. Since March 22, 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 June 30, 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 interim financial statements the Company directly participated (controlled or had significant influence) in the management of these 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 Gotlitas UAB, Rygas Energetikas Remonts SIA and Kaliningradskij Energoremont OOO.

These interim financial statements for the H1 2007 include consolidated Lietuvos Energija AB and its subsidiaries' interim financial statements and separate interim financial statements of the patronizing 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 June 30, 2007 (LTL) | Main activity |
|---|---|---|---|---|---|---|
| **Energetikos Pajėgos UAB** | **T.Masiulio g. 16d, Kaunas, Lithuania** | 100% | 430,400 | 246,553 | 808,017 | **Design of energy projects** |
| **Kauno Energetikos Remontas UAB** | **Chemijos g. 17, Kaunas, Lithuania** | 100% | 31,340,763 | 673,003 | 35,968,071 | **Repair of energy equipment, manufacture of metal constructions** |
| **Kruonio Investicijos UAB** | **Kruonio II k., Kaišiadorių raj., Lithuania** | 100% | 2,361,000 | (8,436) | 2,352,564 | **Development of public, recreational objects** |
| **Gotlitas UAB** | **R.Kalantos g. 119, Kaunas, Lithuania** | 100% | 1,450,000 | 30,490 | 1,466,636 | **Accommodation services, trading activities** |
| **Rygas Energetikas Remonts SIA** | **Riga district. p.n. Acone Salaspils, Latvia** | 100% | 14,546 (LVL 2,000) | 1,141 | 10,544 | **Repair of energy equipment** |
| **Kaliningradskij energoremont OOO** | **Jaltinskaya str. 66, Kaliningrad, Russia** | 99% | 1,349 (RUB 9,900) | 22,473 | 56,899 | **Repair of energy equipment** |

*(continued on the following page)*

### *1. General information (continued)*

As of June 30, 2007 the number of employees of the Group was 1,786 (1,797 as of December 31, 2006). 863 employees were employed at the head office and transmission divisions (847 as of December 31, 2006), 283 – in the branches (295 as of December 31, 2006), Energetikos Pajėgos UAB - 21 (19 as of December 31, 2006), Kauno Energetikos Remontas UAB - 578 (597 as of December 31, 2006), Kruonio Investicijos UAB -1, Gotlitas UAB - 20 (20 as of December, 2006), Rigas Energetikos Remontas SIA - 1 (1 as of December 31, 2006), Kaliningradskij energoremont OOO - 19 (18 as of December 31, 2006).

On 8 March 2006 the heads of three Baltic energy companies – Lietuvos Energija, Eesti Energia and Latvenergo signed a memorandum of understanding regarding the preparation for construction of a new nuclear reactor in Lithuania. The basis for signing this Memorandum was laid on February 27, 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. On October 25, 2005 the project's Steering Committee approved the results of the Feasibility Study on the construction of a new nuclear reactor in Lithuania. During the Study a 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 June 28, 2007 and other legal acts. The mentioned Law grants a status of the national investor for Lietuvos Energija AB which has expressed a private initiative to invest in the project for construction of a new nuclear power plant. As prescribed by the Law, the Government of the Republic of Lithuania and the shareholder having control over the shares of the public company VST are given a right to invest, respectively, the shares of Rytų Skirstomieji Tinklai AB and VST AB, representing more than ½ of the shares of each of these companies and granting the same portion of votes at the general shareholders meeting, in the authorized capital of the national investor - Lietuvos Energija AB. For further information about preparatory works undertaken by the Company for the construction of a new nuclear power plant see note *Subsequent Events*.

The Company actively searches for opportunities to join the alternative electricity grids of West Europe. Starting from April 2005 the Company is participating in an international investment project ESTLINK (laying of underwater 350 MW power cable, connecting the Baltic and Scandinavian countries) by acquiring 25% of the shares of the newly established company Nordic Energy Link AS and investing MEUR 5.5. On January 4, 2007 a trade of electricity by a 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.

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

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

## *2. Significant accounting policies*

The main accounting policies adopted in preparing the Company's interim financial statements and Group's consolidated interim financial statements for the H1 2007 are as follows:

### 2.1 Basis of preparation

These interim financial statements have been prepared in accordance with the International Financial Reporting Standards (the "IFRS") 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.

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

In the reported 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 on 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.

*Standards, amendments and interpretations that were issued, but not effective in 2006 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);
- IFRS 23, Borrowing Costs (amendment) regarding capitalization of borrowing costs (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 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;
- IRFIC 13, Customer Loyalty Programmes (effective for annual period beginning on or after July 1, 2008) - not yet endorsed by the EU;
- IRFIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual period beginning on or after January 1, 2008) - not yet endorsed by the EU;

The Company and Group's management is of the opinion that adoption of these standards 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.

### 2.2 Basis of consolidation

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

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

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

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

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

### 2.3 Business Combinations

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

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

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

### 2.4 Investments in subsidiaries

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

### 2.5 Investments in associates

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

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

The results and assets and liabilities of associates are incorporated in the Company's and 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.

### 2.6 Property, plant and equipment (except investments)

Property, plant and equipment, acquired before January 1, 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 (January 1, 2004) are stated at acquisition cost less any subsequent accumulated depreciation and accumulated impairment losses.

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

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

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

*(continued on the following page)*

**2.6 Property plant and equipment (except investments) (continued)**

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 PPE | 4 - 80 |
| Intangible assets | 3 - 4 |

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

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

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

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

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

**2.7 Impairment of PPE and intangible assets**

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

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

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

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

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

## 2.8 Financial assets

Investments are recognized and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction cost.
Financial assets are classified into the following specified categories: "held to maturity investments" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.
Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

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

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

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

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.

## 2.9 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.

## 2.10 Cash and cash equivalents

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

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

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

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

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

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

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

### 2.12 Foreign currency translation

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

The applicable rates used for principal currencies were as follows:

| June 30, 2007 | | | December 31, 2006 | | |
|---|---|---|---|---|---|
| 1 EUR | = | 3.4528 LTL | 1 EUR | = | 3.4528 LTL |
| 1 LVL | = | 4.9597 LTL | 1 LVL | = | 4.9537 LTL |
| 100 RUB | = | 9.9356 LTL | 100 RUR | = | 9.9708 LTL |
| 10 SEK | = | 3.7386 LTL | 10 SEK | = | 3.8251 LTL |
| 1 USD | = | 2.5642 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 entity are expressed in Litas (LTL), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

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

### 2.13 Grants

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

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

### 2.14 Lease

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

The Company and the Group as 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.

### 2.15 Business and geographical segments

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

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

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

### 2.16 Revenues and expenses recognition

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

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

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

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

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

Expenses are recognized in profit or loss when incurred.

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

### 2.17 Finance costs

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

### 2.18 Income tax

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

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

### 2.19 Earnings per share

The weighted average number of shares, based on which earnings per share are calculated, for the H1 2007 and 2006 was 689,515,435. As of June 30, 2007 and December 31, 2006 and in the H1 2007 and in the H1 2006 the Company had no dilutive options outstanding.

### 2.20 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.

### 2.21 Subsequent events

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

### 2.22 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 June 30, 2007 and December 31, 2006 there were no indications that property, plant and equipment was impaired.

### *4. Intangible assets*

As of June 30, 2007 and December 31, 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 December 31, 2005** | **1,405** | **14,304** | **46** | **15,755** |
| - additions | 945 | 148 | 13 | 1,106 |
| - disposals (-) | - | - | (16) | (16) |
| **As of June 30, 2006** | **2,350** | **14,452** | **43** | **16,845** |
| - additions | 6 | 2,340 | - | 2,346 |
| - disposals (-) | (27) | (94) | - | (121) |
| **As of December 31, 2006** | **2,329** | **16,698** | **43** | **19,070** |
| - additions | - | 179 | 5 | 184 |
| - disposals (-) | - | (12) | - | (12) |
| **As of June 30, 2007** | **2,329** | **16,865** | **48** | **19,242** |
| **Amortization** | | | | |
| **As of December 31, 2005** | **518** | **9,172** | **7** | **9,697** |
| - amortization | 221 | 1,041 | 4 | 1,266 |
| **As of June 30, 2006** | **739** | **10,213** | **11** | **10,963** |
| - amortization | 339 | 1,064 | 3 | 1,406 |
| - amortization of disposals and retirements | (27) | (94) | - | (121) |
| **As of December 31, 2006** | **1,051** | **11,183** | **14** | **12,248** |
| - amortization | 337 | 1,033 | 4 | 1,374 |
| - amortization of disposals and retirements | - | (12) | - | (12) |
| **As of June 30, 2007** | **1,388** | **12,204** | **18** | **13,610** |
| **Carrying amount** | | | | |
| **As of December 31, 2006** | **1,278** | **5,515** | **29** | **6,822** |
| **As of June 30, 2007** | **941** | **4,661** | **30** | **5,632** |

As of June 30, 2007 and December 31, 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 December 31, 2005** | **1,348** | **14,250** | **7** | **15,605** |
| - additions | 943 | 148 | - | 1,091 |
| **As of June 30, 2006** | **2,291** | **14,398** | **7** | **16,696** |
| - additions | - | 2,321 | - | 2,321 |
| - disposals and retirements (-) | (14) | (94) | - | (108) |
| **As of December 31, 2006** | **2,277** | **16,625** | **7** | **18,909** |
| - additions | - | 178 | - | 178 |
| - disposals and retirements (-) | - | (12) | - | (12) |
| **As of June 30, 2007** | **2,277** | **16,791** | **7** | **19,075** |
| **Amortization** | | | | |
| **As of December 31, 2005** | **490** | **9,140** | **7** | **9,637** |
| - amortization | 213 | 1,031 | - | 1,244 |
| **As of June 30, 2006** | **703** | **10,171** | **7** | **10,881** |
| - amortization | 330 | 1,055 | - | 1,385 |
| - amortization of disposals and retirements (-) | (14) | (94) | - | (108) |
| **December 31, 2006** | **1,019** | **11,132** | **7** | **12,158** |
| - amortization | 330 | 1,024 | - | 1,354 |
| - amortization of disposals and retirements (-) | - | (12) | - | (12) |
| **As of June 30, 2007** | **1,349** | **12,144** | **7** | **13,500** |
| **Carrying amount** | | | | |
| **As of December 31, 2006** | **1,258** | **5,493** | **-** | **6,751** |
| **As of June 30, 2007** | **928** | **4,647** | **-** | **5,575** |

As of June 30, 2007 and as of December 31, 2006, acquisition cost of fully amortized non-current intangible assets of the group and company that are still in use consisted of the following:

| Non-current intangible asset group | Group as of June 30, 2007 | Company as of June 30, 2007 | Group as of December 31, 2006 | Company as of December 31, 2006 |
|---|---|---|---|---|
| Patents and licenses | 301 | 301 | 296 | 296 |
| Software | 9,223 | 9,181 | 7,294 | 7,294 |
| Other intangible assets | 7 | 7 | 7 | 7 |
| **Total** | **9,531** | **9,489** | **7,597** | **7,597** |

### *5. Property, plant and equipment*

As of June 30, 2007 and December 31, 2006 the group's property, plant and equipment consisted of the following:

| Group | Buildings and structures | Machinery and equipment | Vehicles | Other equipment, tools and devices | Construction in progress | Other PPE | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition (deemed) cost** | | | | | | | |
| **As of December 31, 2005** | **2,362,156** | **280,363** | **20,238** | **111,865** | **76,064** | **18,350** | **2,869,036** |
| - additions | 2,964 | 729 | 964 | 1,621 | 37,259 | 15,630 | 59,167 |
| - disposals (-) | (941) | (109) | (239) | (279) | - | - | (1,568) |
| - reclassifications +/(-) | 35,617 | 6,592 | - | 1,702 | (33,600) | (10,311) | - |
| **As of June 30, 2006** | **2,399,796** | **287,575** | **20,963** | **114,909** | **79,723** | **23,669** | **2,926,635** |
| - additions | 447 | 2,340 | 2,238 | 4,510 | 55,421 | 25,491 | 90,447 |
| - disposals (-) | (4,345) | (2,934) | (452) | (60) | - | (36) | (7,827) |
| - reclassifications and transfers to non-current intangible assets +/(-) | 36,862 | 10,451 | - | 4,256 | (39,546) | (12,023) | - |
| **As of December 31, 2006** | **2,432,760** | **297,432** | **22,749** | **123,615** | **95,598** | **37,101** | **3,009,255** |
| - additions | 440 | 490 | 1,056 | 1,268 | 50,930 | 7,167 | 61,351 |
| - disposals (-) | (1,010) | (1,577) | (64) | (401) | (9) | - | (3,061) |
| - reclassifications +/(-) | 26,206 | 7,700 | - | 4,020 | (19,279) | (18,647) | - |
| **As of June 30, 2007** | **2,458,396** | **304,045** | **23,741** | **128,502** | **127,240** | **25,621** | **3,067,545** |
| **Depreciation** | | | | | | | |
| **As of December 31, 2005** | **221,641** | **38,944** | **8,578** | **36,850** | **-** | **181** | **306,194** |
| - depreciation | 56,651 | 11,006 | 2,086 | 9,341 | - | 45 | 79,129 |
| - depreciation of disposals and retirements (-) | (662) | (86) | (163) | (248) | - | - | (1,159) |
| **As of June 30, 2006** | **277,630** | **49,864** | **10,501** | **45,943** | **-** | **226** | **384,164** |
| - depreciation | 57,002 | 11,155 | 2,066 | 9,498 | - | 36 | 79,757 |
| - depreciation of disposals and retirements (-) | (2,178) | (1,578) | (406) | (57) | - | (3) | (4,222) |
| - reclassifications +/(-) | (10) | 15 | - | - | - | (5) | - |
| **As of December 31, 2006** | **332,444** | **59,456** | **12,161** | **55,384** | **-** | **254** | **459,699** |
| - depreciation | 50,221 | 10,015 | 1,590 | 10,089 | - | 41 | 71,956 |
| - depreciation of disposals and retirements (-) | (412) | (1,486) | (63) | (396) | - | - | (2,357) |
| - reclassifications +/(-) | - | - | - | - | - | - | - |
| **As of June 30, 2007** | **382,253** | **67,985** | **13,688** | **65,077** | **-** | **295** | **529,298** |
| **Impairment** | | | | | | | |
| **As of December 31, 2005** | **11** | **-** | **58** | **-** | **-** | **34** | **103** |
| - reversals (-) | - | - | (56) | - | - | - | (56) |
| **As of June 30, 2006** | **11** | **-** | **2** | **-** | **-** | **34** | **47** |
| - impairment | 1,207 | - | - | - | - | - | 1,207 |
| - reversals (-) | - | - | (2) | - | - | (34) | (36) |
| **As of December 31, 2006** | **1,218** | **-** | **-** | **-** | **-** | **-** | **1,218** |
| - impairment | - | - | - | - | - | - | |
| - reversals (-) | (30) | - | | - | - | | (30) |
| **As of June 30, 2007** | **1,188** | **-** | **-** | **-** | **-** | **-** | **1,188** |
| **Carrying amount** | | | | | | | |
| **as of December 31, 2006** | **2,099,098** | **237,976** | **10,588** | **68,231** | **95,598** | **36,847** | **2,548,338** |
| **as of June 30, 2007** | **2,074,955** | **236,060** | **10,053** | **63,425** | **127,240** | **25,326** | **2,537,059** |

*(continued on the following page)*

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

As of June 30, 2007 and December 31, 2006 the company's property, plant and equipment consisted of the following:

| Company | Buildings and structures | Machinery and equipment | Vehicles | Other equipment, tools and devices | Construction in progress | Other PPE | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition (deemed) cost** | | | | | | | |
| **As of December 31, 2005** | **2,343,845** | **271,740** | **18,272** | **111,597** | **76,718** | **17,590** | **2,839,762** |
| - additions | 2,824 | 354 | 757 | 1,593 | 37,440 | 15,556 | 58,524 |
| - disposals (-) | (941) | (85) | (159) | (279) | - | - | (1,464) |
| - reclassificatoins +/(-) | 35,635 | 6,410 | - | 1,702 | (33,436) | (10,311) | - |
| **As of June 30, 2006** | **2,381,363** | **278,419** | **18,870** | **114,613** | **80,722** | **22,835** | **2,896,822** |
| - additions | | | | | | | |
| - disposals and retirements (-) | | | | | | | |
| - reclassifications +/(-) | | | | | | | |
| **As of December 31, 2006** | **2,414,303** | **287,709** | **20,482** | **123,316** | **96,148** | **36,234** | **2,978,192** |
| - additions | 1 | 279 | 942 | 1,258 | 51,225 | 7,167 | 60,872 |
| - disposals and retirements (-) | (1,010) | (1,486) | (50) | (402) | (9) | - | (2,957) |
| - reclassifications +/(-) | 26,269 | 7,698 | - | 4,021 | (19,341) | (18,647) | - |
| **As of June 30, 2007** | **2,439,563** | **294,200** | **21,374** | **128,193** | **128,023** | **24,754** | **3,036,107** |
| **Depreciation** | | | | | | | |
| **As of December 31, 2005** | **220,816** | **37,242** | **8,139** | **36,751** | - | **76** | **303,024** |
| - depreciation | 56,455 | 10,507 | 1,899 | 9,305 | - | 19 | 78,185 |
| - depreciation of disposals and retirements (-) | (662) | (65) | (95) | (248) | - | - | (1,070) |
| **As of June 30, 2006** | **276,609** | **47,684** | **9,943** | **45,808** | - | **95** | **380,139** |
| - depreciation | 56,808 | 10,630 | 1,889 | 9,456 | - | 17 | 78,800 |
| - depreciation of disposals and retirements(-) | (2,177) | (1,400) | (353) | (56) | - | (1) | (3,987) |
| - reclassifications +/(-) | (11) | 16 | - | - | - | (5) | - |
| **December 31, 2006** | **331,229** | **56,930** | **11,479** | **55,208** | - | **106** | **454,952** |
| - depreciation | 50,020 | 9,481 | 1,440 | 10,056 | - | 17 | 71,014 |
| - depreciation of disposals and retirements (-) | (412) | (1,404) | (50) | (396) | - | - | (2,262) |
| - reclassification +/(-) | - | - | - | - | - | - | - |
| **As of June 30, 2007** | **380,837** | **65,007** | **12,869** | **64,868** | - | **123** | **523,704** |
| **Impairment** | | | | | | | |
| **As of December 31,** | - | - | **58** | - | - | **34** | **92** |
| - reversals (-) | - | - | (56) | - | - | | (56) |
| **As of June 30, 2006** | - | - | **2** | - | - | **34** | **36** |
| - impairment | 1,207 | - | - | - | - | - | 1,207 |
| - reversals (-) | - | - | (2) | - | - | (34) | (36) |
| **As of December 31, 2006** | **1,207** | - | - | - | - | - | **1,207** |
| - impairment | - | - | - | - | - | - | |
| - disposals and retirements(-) | (30) | - | - | - | - | - | (30) |
| **June 30, 2007** | **1,177** | - | - | - | - | - | **1,177** |
| **Carrying amount** | | | | | | | |
| **As of December 31, 2006** | **2,081,867** | **230,779** | **9,003** | **68,108** | **96,148** | **36,128** | **2,522,033** |
| **As of June 30, 2007** | **2,057,549** | **229,193** | **8,505** | **63,325** | **128,023** | **24,631** | **2,511,226** |

In the H1 2007 the Company completed the following major investment projects:

| Project | Value |
|---|---|
| Reconstruction of Joniškis 110/35/10 kV SS | 7,093 |
| Reconstruction of the 110/10 kV Šilutė SS | 5,642 |
| Reconstruction of the 110/35/10 kV Molėtai SS | 5,060 |
| Construction of the 110/20kV Benaičiai VE SS | 4,373 |
| Connection of the 110/10 kV Smeltė SS to the 110 kV network (installation of the cable line) | 3,077 |
| | |

*(continued on the following page)*

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

As of June 30, 2007 and December 31, 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 | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Machinery and equipment | 1,265 | 1,334 |
| Vehicles | 116 | 130 |
| **Total** | **1,381** | **1,464** |

As of June 30, 2007 and December 31, 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 June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| Buildings and structures | 42,372 | 42,371 | 1,530 | 1,530 |
| Machinery and equipment | 8,567 | 8,454 | 2,159 | 2,042 |
| Vehicles | 7,066 | 7,066 | 6,562 | 6,560 |
| Other equipment, tools and devices | 14,030 | 13,966 | 12,412 | 12,412 |
| **Total** | **72,035** | **71,857** | **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 45,263 and EUR'000 23,109 (total amount LTL'000 125,054) of which MLTL 30 will be financed from European Union structural funds, national budget and other state monetary funds. The contractor of the project - Alstom Power Sweden AS. The project is scheduled to be finished in 2008.

### *6. Investicijos*

As of June 30, 2007 the Company had direct control over three subsidiaries: Energetikos Pajėgos UAB (acquisition cost of LTL'000 414) and 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 these companies. The remaining three subsidiaries (Note 1) the Company controls indirectly, i.e. through Kauno Energetikos Remontas UAB.

Kruonio Investicijos UAB was established on January 18, 2007. The Company owns 100 percent of shares in the subsidiary. The share capital of the newly established subsidiary equals LTL'000 2,361 and is divided into 23610 registered shares with the par value of LTL100. The objective of Kruonio Investicijos UAB operations - the development of social and recreation facilities. The share capital of Kruonio Investicijos UAB was paid by monetary installments of LTL'000 410 and in real property contribution which at the moment when this contribution was made was evaluated by independent assessors at its fair value. The book value of real estate made as a contribution in the subsidiary equaled LTL'000 391. The value of real estate was assessed by the independent assessors' company Latmas UAB by using the method of restored value. The value of the real estate contributed to the subsidiary increased by LTL'000 1,560.

In addition to the aforesaid subsidiaries, the Company had the following associates: Nordic Energy Link AS (acquisition cost of LTL'000 18,978); Geoterma UAB (acquisition cost of LTL'000 4,373).

On March 20, 2007 the liquidation procedure of Baltijas Energosistemu Dispečeru Centrs BO SIA was completed. After its liquidation, the Company lost 33.33 percent of Baltijas Energosistemu Dispečeru Centrs BO SIA shares.
As of June 30, 2007 and December 31, 2006 investments in associates consisted of the following:

| Company June 30, 2007 | Acquisition cost | Ownership of shares (per cent) | Impairment | Carrying amount |
|---|---|---|---|---|
| Geoterma UAB | 4,373 | 23.44 | 2,208 | 2,165 |
| Nordic Energy Link AS | 18,978 | 25 | 274 | 18,704 |
| **Total** | **23,351** | | **2,482** | **20,869** |

*(continued on the following page)*

### 6. *Investments (continued)*

| Company December 31, 2006 | Acquisition cost | Ownership of shares (per cent) | Impairment | Carrying amount |
|---|---|---|---|---|
| Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija)* | 2,740 | 33.33 | (2,171) | 569 |
| Geoterma UAB | 4,373 | 23.44 | (1,905) | 2,468 |
| Nordic Energy Link AS | 18,978 | 25 | (274) | 18,704 |
| **Total** | **26,091** | | **(4,350)** | **21,741** |

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

Financial position as of June 30, 2007 and operating results for the H1 2007 of the associates consisted of the following:

| Company June 30, 2007 | Assets | Liabilities | Revenue | Net loss |
|---|---|---|---|---|
| Geoterma UAB | 54,469 | 45,232 | 2,201 | (1,292) |
| Nordic Energy Link AS * | | | | |
| *- financial statements of this company for the reporting period were not provided on the day of signing of this report | | | | |

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

| Company December 31, 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 periods ended June 30, 2007 and December 31, 2006, the movement of investments in associates consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---|---|---|---|---|
| **Carrying amount as of January 1** | **21,741** | **21,741** | **24,117** | **24,117** |
| Impairment of investment in associates | (24) | (327) | - | (815) |
| Share of loss of associates | (303) | - | (815) | - |
| Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija) liquidation | (545) | (545) | - | - |
| **Carrying amount as of June 30** | **20,869** | **20,869** | **23,302** | **23,302** |
| Impairment of investment in associates | | | (416) | (1,561) |
| Share of loss of associates | | | (1,145) | - |
| **Carrying amount as of December 31** | | | **21,741** | **21,741** |

### *7. Other non-current receivables*

The Group and Company's other non-current receivables as of June 30, 2007 and December 31, 2006 consisted of the following:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| Receivables from VST AB* | 7,992 | 7,992 | 7,810 | 7,810 |
| Other receivables | 903 | 903 | 955 | 955 |
| **Total** | **8,895** | **8,895** | **8,765** | **8,765** |
| Less: current receivables (note 10) | (1,155) | (1,155) | (973) | (973) |
| **Carrying amount** | **7.740** | **7.740** | **7,792** | **7,792** |

* In 2005 Lietuvos Energija AB decided to dispose the 10 kV transmission equipment to VST AB, i.e. 10 kV switchgears of 330 kV transformer substations in various transmission divisions. As of June 30, 2007 receivable under such transaction, amounting to LTL'000 7,992 (as of December 31, 2006 - LTL'000 7,810), is accounted under other non-current receivables. The amount will be repaid in equal installments by the year 2015. Its current portion, amounting to LTL'000 868 and the accrued interest of LTL'000 210 are accounted under other current receivables (see Note 10). The interest rate of this transaction approximates the market interest rate.

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

### *8. Inventories*

As of June 30, 2007 and December 31, 2006 the Company and Group's inventories consisted of the following:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| Materials and spare parts, production in progress and finished goods at acquisition (production) cost | 13,750 | 7,898 | 12,298 | 6,011 |
| Goods for resale at acquisition cost | 770 | 716 | 782 | 733 |
| Less: write-down to net realizable value | (335) | (335) | (378) | (351) |
| **Carrying amount** | **14.185** | **8.279** | **12,702** | **6,393** |

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

As of June 30, 2007 and December 31, 2006, the movement of allowances for inventories consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---|---|---|---|---|
| **Carrying amount as of January 1** | **378** | **351** | **192** | **189** |
| Inventory allowances for reporting period | - | - | 378 | 378 |
| Reversal of inventory allowances | (43) | (16) | (3) | - |
| **Carrying amount as of June 30** | **335** | **335** | **567** | **567** |
| Inventory allowances for reporting period | | | 27 | - |
| Reversal of inventory allowances | | | (216) | (216) |
| **Carrying amount as of December 31** | | | **378** | **351** |

### *9. Trade receivables*

The Company's and the Group's trade receivables as of June 30, 2007 and December 31, 2006 consisted of the following:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| Receivables from electricity market players | 61,786 | 61,786 | 78,163 | 78,163 |
| Receivables from other Lithuanian companies | 28,787 | 16,864 | 25,418 | 17,427 |
| Receivables for exported electricity | 22,688 | 22,688 | 2,098 | 2,098 |
| Receivables for electricity transit | 291 | 291 | 49 | 49 |
| **Total** | **113,552** | **101,629** | **105,728** | **97,737** |
| Less: allowance for doubtful receivables | (9,952) | (9,612) | (9,954) | (9,612) |
| **Carrying amount** | **103,600** | **92,017** | **95.774** | **88.125** |

The actual amount of trade receivables approximates their carrying amount.

The movement of allowances for doubtful receivables as of June 30, 2007 and December 31, 2006 consisted of:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---|---|---|---|---|
| **Carrying amount as of January 1** | **9,954** | **9,612** | **7,943** | **7,557** |
| Doubtful receivables allowances for reporting period | - | - | 4,306 | 4,306 |
| Reversal of doubtful receivables allowances | (2) | - | (106) | - |
| Retirement of allowances for doubtful receivables | - | - | (2,251) | (2,251) |
| **Carrying amount as of June 30** | **9,952** | **9,612** | **9,891** | **9,612** |
| Doubtful receivables allowances for reporting period | | | 63 | - |
| **Carrying amount as of December 30** | | | **9,954** | **9,612** |

As of June 30, 2007 and December 31, 2006 the overdues of the group and company's trade receivables, which were not subject to allowances, consisted of:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2007 | Company December 31, 2007 |
|---|---|---|---|---|
| No overdues | 102,323 | 91,505 | 94,169 | 87,730 |
| Overdues up to 30 days | 1,004 | 512 | 719 | 382 |
| Overdues from 30 to 60 days | 50 | - | 828 | 13 |
| Overdues from 60 to 90 days | 188 | - | 11 | - |
| Overdues more than 90 days | 35 | - | 47 | - |
| **Carrying amount** | **103,600** | **92,017** | **95,774** | **88,125** |

### *10. Other current receivables*

As of June 30, 2007 and December 31, 2006 the Group and Company's other current receivables consisted of the following:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| VAT receivables for upcoming periods | 3,594 | 3,594 | 836 | 836 |
| Receivables for IT and telecommunication services | 2,693 | 2,708 | 2,551 | 2,551 |
| Current year's share of non-current receivables (note 7) | 1,155 | 1,155 | 973 | 973 |
| VAT receivable from budget | - | - | 2,983 | 2,970 |
| Receivables for connection of wind power stations | - | - | 958 | 958 |
| Other receivables | 299 | 214 | 787 | 702 |
| **Carrying amount** | **7,741** | **7,671** | **9,088** | **8,990** |

As of June 30, 2007 and December 31, 2006 the overdues of the group and company's other current receivables, which were not subject to allowances, consisted of:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2007 | Company December 31, 2007 |
|---|---|---|---|---|
| No overdue | 6,760 | 6,672 | 7,827 | 7,725 |
| Overdue up to 30 days | 942 | 953 | 1,210 | 1,214 |
| Overdue from 30 to 60 days | 39 | 46 | 51 | 51 |
| **Carrying amount** | **7,741** | **7,671** | **9,088** | **8,990** |

### *11. Term deposits*

As of June 30, 2007 and December 31, 2006, the Group and Company's term deposits consisted of:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| Term deposit at Bank Snoras AB (LTL), annual interest rate – 4.20 per cent, maturity – December 5, 2007. | 500 | - | - | - |
| Term deposit at Nordea Bank Finland Plc Lithuanian branch (LTL), annual interest rate – 4.31 per cent, maturity – October 5, 2007. | 500 | - | - | - |
| Term deposit at Bank Snoras AB (LTL), annual interest rate – 4.1 per cent, maturity – July 12, 2007 | 150 | - | 150 | - |
| **Carrying amount** | **1,150** | **-** | **150** | **-** |

Fair values of term deposits approximate their carrying amounts.

### *12. Cash and cash equivalents*

As of June 30, 2007 and December 31, 2006 the Group and Company's cash and cash equivalents consisted of the following:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| Cash at banks and on hand | 3,509 | 1,997 | 3,839 | 908 |
| Term deposit at bank Nordea Bank Finland Plc Lithuania's branch (LTL),annual interest rate – 3.2 per cent, maturity – July 4, 2007. | 500 | - | - | - |
| Term deposit at bank Nordea Bank Finland Plc Lithuania's branch (LTL),annual interest rate – 4.68 per cent, maturity – September 19, 2007. | 360 | - | - | - |
| Term deposit at Medicinos Bankas UAB (in LTL), annual interest rate – 6.5 per cent, maturity – July 16, 2007 | 200 | - | - | - |
| Term deposit at bank Snoras AB (LTL), annual interest rate - 3.425 per cent, maturity – March 4, 2007 | - | - | 500 | - |
| Overnight deposit at bank Hansabankas AB (LTL), annual interest rate – 0.45 per cent. | - | - | 449 | 449 |
| **Carrying amount** | **4,569** | **1,997** | **4,788** | **1,357** |

### *13. Share capital*

As of June 30, 2007 and December 31, 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 were fully paid. During the H1 2007 the highest share price at the Stock Exchange session was LTL 5.50 per share, lowest – LTL 3.20 per share. The number of shareholders as of June 30, 2007 was 5,195.

As of June 30, 2007 the company's shareholders were:

| | Shares as of June 30, 2007 | | Shares as of December 31, 2006 | |
|---|---|---|---|---|
| **Shareholders** | **(Lt)** | **%** | **(Lt)** | **%** |
| Lithuanian State, represented by Ministry of Economy of the Republic of Lithuania | 665,459,570 | 96.51 | 665,891,508 | 96.57 |
| Others | 24,055,865 | 3.49 | 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.

As of June 30, 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.

### *15. Other reserves*

As of June 30, 2007 and December 31, 2006 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 | Reserve related with fixed assets | Other reserves | Total |
|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 2005** | **(63,777)** | **162,744** | **24** | **3,512** | **-** | **-** | **102,503** |
| Transfers to reserve | - | - | - | 2,100 | 1,293,569 | - | 1,295,669 |
| Reserves used | - | - | (24) | (3,500) | - | - | (3,524) |
| **Balance as of June 30, 2006** | **(63,777)** | **162,744** | **-** | **2,112** | **1,293,569** | **-** | **1,394,648** |
| Reserves used | - | - | - | (88) | - | - | (88) |
| **Balance as of December 31, 2006.** | **(63,777)** | **162,744** | **-** | **2,024** | **1,293,569** | **-** | **1,394,560** |
| Transfers to reserve | - | - | - | 1,855 | - | 10,531 | 12,386 |
| Reserves used | - | - | - | (2,024) | - | | (2,024) |
| **Balance as of June 30, 2007.** | **(63,777)** | **162,744** | **-** | **1,855** | **1,293,569** | **10,531** | **1,404,922** |

| 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 | Reserve related with fixed assets | Other reserves | Total |
|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 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 June 30, 2006** | **(63,777)** | **160,637** | **-** | **2,000** | **1,293,569** | **-** | **1,392,429** |
| **Balance as of December 31, 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 |
| Transfer of property, plant and equipment | - | - | (1,560) | - | - | - | (1,560) |
| **Balance as of June 30, 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 Vilniaus Mazuto Saugykla VĮ (although expected, the share capital has not been reduced by this amount until now).

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

### *16. Borrowings*

As of June 30, 2007 and December 31, 2006 the Group and Company's borrowings were repayable as follows:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006. |
|---|---|---|---|---|
| Within first year | 2,022 | 2,022 | 20,581 | 20,581 |
| Within second year | 5,397 | 5,397 | 5,085 | 5,085 |
| Within third year | 12,381 | 12,381 | 12,381 | 12,381 |
| Within fourth year | 19,286 | 19,286 | 15,833 | 15,833 |
| Within fifth year | 19,286 | 19,286 | 15,833 | 15,833 |
| After five years | 3,033 | 3,033 | 21,308 | 21,308 |
| **Total** | **61,405** | **61,405** | **91,021** | **91,021** |

As of June 30, 2007 and December 31, 2006 the Group and Company's long-term borrowings consisted of the following:

| Credit institution | Contractual amount (EUR'000) | Carrying amount as of June 30, 2007 (EUR'000) | Maturity | Current portion as of June 30, 2007 | Carrying amount as of June 30, 2007 | Carrying amount as of December 31, 2006 |
|---|---|---|---|---|---|---|
| Zurcher Kantonalbank | 8,013 | 3,807 | 2013 | 2,022 | 13,144 | 14,155 |
| SEB Vilniaus Bankas AB | 15,000 | 586 | 2009 | - | 2,023 | 13,421 |
| Bayerishe Hypo-und Wereinsbank AG Vilniaus Branch | 15,000 | 13,000 | 2012 | - | 44,886 | 44,886 |
| Nordea Bank Finland Plc Lithuanian Branch | 15,000 | - | 2007 | - | - | 18,559 |
| Bank Hansabankas AB | 11,585 | 391 | 2009 | - | 1,352 | - |
| **Total long-term borrowings:** | **64,598** | **17,784** | | **2,022** | **61,405** | **91,021** |

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

As of June 30, 2007 the Group and the Company had borrowings, amounting to LTL'000 33,783 with a floating interest rate (weighted average – 4.2%) and borrowings, amounting to LTL'000 27,622, with a fixed interest rate (weighted average - 4.3%).

As of December 31, 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 17 May 2002 agreement with bank Hansabankas AB (contractual amounts – LTL'000 9,000, EUR'000 3,185 and EUR'000 11,585) the Company obligated to carry monthly turnover of over MLTL 15 through the Company's accounts at this bank, not to close accounts without prior notice, shall not establish joint ventures, shall not assume liabilities under credit, loan or guarantee agreements, lease, financial lease or factoring agreements concluded with credit institutions or other entities, shall not assume liabilities with regard to third parties under guarantee, surety, pledge agreements if the liabilities under any of such agreements would exceed MLTL 10. Without written approval shall not: dispose non-current assets (exceeding MLTL 10), rent part of business, pledge current and future funds in bank, and take decisions related to reorganization.

*(continued on the following page)*

### *16. Borrowings (continued)*

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

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

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

In H1 2007 and 2006 the Group and the Company complied with all covenants under the credit agreements.

### *17. Obligations under finance leases*

As of June 30 and December 31, 2006 the Group's minimum lease payments consisted of the following:

| Group | June 30, 2007 | | December 31, 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 | 235 | 229 | 275 | 263 |
| Within the second - fifth year inclusive | 16 | 16 | 120 | 119 |
| **Minimum lease payments** | **251** | **245** | **395** | **382** |
| Less: future finance charges | (6) | - | (13) | - |
| **Present value of minimum lease payments** | **245** | **245** | **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 Group's 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 June 30, 2007 was EUR7.607 thousand (LTL26.267 thousand) (as of December 31, 2006 - EUR7.544 thousand (LTL26.048 thousand)).

### *19. Grants*

For the years ended June 30, 2007 and June 30, 2006 the movement of grants consisted of the following:

| Group | Grants related to assets | | |
|---|---|---|---|
| | Grants related to connection fee | Grants related to financing of assets acquisition | Iš viso |
| **Carrying amount as of December 31, 2005** | **1,383** | **15,259** | **16,642** |
| - grants received | - | 4,051 | 4,051 |
| - grants used | (36) | (412) | (448) |
| **Carrying amount as of June 30, 2006** | **1,347** | **18,898** | **20,245** |
| - grants received | 2,698 | 1,948 | 4,646 |
| - grants used | (120) | (431) | (551) |
| **Carrying amount as of December 31, 2006** | **3,925** | **20,415** | **24,340** |
| - grants received | 4,373 | 3,477 | 7,850 |
| - grants used | (159) | (450) | (609) |
| **Carrying amount as of June 30, 2007** | **8,139** | **23,442** | **31,581** |

| Company | Grants related to assets | | |
|---|---|---|---|
| | Grants related to connection fee | Grants related to financing of assets acquisition | Total |
| **Carrying amount as of December 31, 2005** | **1,383** | **15,161** | **16,544** |
| - grants received | - | 4,051 | 4,051 |
| - grants used | (36) | (400) | (436) |
| **Carrying amount as of June 30, 2006** | **1,347** | **18,812** | **20,159** |
| - grants received | 2,698 | 1,948 | 4,646 |
| - grants used | (120) | (420) | (540) |
| **Carrying amount as of December 31, 2006** | **3,925** | **20,340** | **24,265** |
| - grants received | 4,373 | 3,477 | 7,850 |
| - grants used | (159) | (438) | (597) |
| **Carrying amount as of June 30, 2007** | **8,139** | **23,379** | **31,518** |

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 June 30, 2007 these advance payments amounted to LTL'000 19.251 (as of December 31, 2006 – LTL'000 14,366).

### *20. Trade and other payables*

As of June 30, 2007 and December 31, 2006 the Group and Company's trade and other payables consisted of the following:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| Trade payables | 120,987 | 114,791 | 140,551 | 135,258 |
| Advances received | 23,168 | 20,536 | 18,279 | 16,057 |
| Deferred VAT payable | 6,257 | 6,257 | 7,763 | 7,763 |
| Payroll related liabilities | 4,720 | 2,839 | 2,595 | 1,422 |
| Vacation reserve | 2,344 | 2,319 | 2,537 | 2,512 |
| Property tax payable | 2,046 | 2,046 | 2,087 | 2,087 |
| VAT payable | 1,836 | 1,442 | - | - |
| Dividends payable | 637 | 637 | 553 | 553 |
| Other payables and current liabilities | 767 | 690 | 766 | 681 |
| **Carrying amount** | **162,762** | **151,557** | **175,131** | **166,333** |

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

### *21. Income tax expense*

For H1 ended as of June 30, 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 (hereinafter – IT) (including social tax) | 13,391 | 13,157 | 14,493 | 14,398 |
| Deferred income tax benefit (hereinafter – „DITB") | (5,732) | (5,701) | (8,229) | (8,199) |
| **Income tax expenses for the reporting period** | **7.659** | **7.456** | **6.264** | **6.199** |

*(continued on the following page)*

### *21. Income tax expense (continued)*

As of June 30, 2007 and December 31, 2006 the Group and Company's deferred income tax consisted of the following:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| **Deferred income tax (hereinafter – „DIT") assets** | | | | |
| Impairment of Property, plant and equipment (deemed cost) | (193,637) | (193,637) | (198,167) | (198,167) |
| Allowances for doubtful receivables (Baltic Shem and Liberty) | (6,229) | (6,229) | (8,565) | (8,565) |
| Allowances for doubtful receivables (Ekranas AB) | (1,442) | (1,442) | (1,442) | (1,442) |
| Vacation reserve | (358) | (354) | (389) | (389) |
| Impairment of financial assets (will be recognized for tax purposes at the moment of disposal) | (372) | (372) | (326) | (326) |
| Recognition for tax purposes of capitalized finance costs previously written-off | (152) | (152) | (237) | (237) |
| Allowances for inventories to net realizable value | (50) | (50) | (53) | (53) |
| **Total deferred income tax assets** | **(202,240)** | **(202,236)** | **(209,179)** | **(209,179)** |
| **Deferred income tax liabilities** | | | | |
| Increase in value of Property, plant and equipment (deemed cost) | 387,996 | 387,867 | 399,582 | 399,440 |
| Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress) | 26,851 | 26,595 | 28,003 | 27,733 |
| Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting | 1,320 | 1,320 | 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 June 30, 2007 | 3 | 3 | 5 | 5 |
| Other (derivative financial instruments) | - | - | 11 | 11 |
| **Total deferred income tax liabilities** | **416,170** | **415,785** | **428,887** | **428,475** |
| Less: valuation allowance | 372 | 372 | 326 | 326 |
| **Deferred income tax liabilities, net** | **214,302** | **213,921** | **220,034** | **219,622** |

Deferred income tax assets and liabilities were accounted by using 15% tax rate, excluding deferred income tax assets and liabilities which will be recovered or settled in 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.

*(continued on the following page)*

### *21. Income tax expense (continued)*

As of June 30, 2007 and December 31, 2006 the Group and Company's periods of deferred income tax assets recovery and deferred tax liabilities settlement were as follows:

| | Group June 30, 2007 | Company June 30, 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| **Deferred income tax assets:** | | | | |
| Deferred income tax assets to be recovered after more than 12 months | 189,112 | 189,108 | 194,762 | 194,762 |
| Deferred income tax assets to be recovered within 12 months | 12,756 | 12,756 | 14,091 | 14,091 |
| **Total deferred income tax assets** | **201,868** | **201,864** | **208,853** | **208,853** |
| **Deferred income tax liabilities:** | | | | |
| Deferred income tax liabilities to be settled after more than 12 months | 393,675 | 393,290 | 401,677 | 401,265 |
| Deferred income tax liabilities to be settled within 12 months | 22,495 | 22,495 | 27,210 | 27,210 |
| **Total deferred income tax liabilities** | **416,170** | **415,785** | **428,887** | **428,475** |
| **Deferred income tax liabilities, net** | **214,302** | **213,921** | **220,034** | **219,622** |

Group's changes of temporary differences were as follows:

| | As of December 31, 2006 | Charged (credited) to the income (loss) statement | As of June 30, 2007 |
|---|---|---|---|
| Impairment of Property, plant and equipment (deemed cost) | (1,310,920) | 25,011 | (1,285,909) |
| Allowances for doubtful receivables (Baltic Shem and Liberty) | (51,909) | 12,975 | (38,934) |
| Allowances for doubtful receivables (Ekranas AB) | (9,612) | - | (9,612) |
| Vacation reserve | (2,512) | 168 | (2,344) |
| Impairment of financial assets (will be recognized for tax purposes at the moment of disposal) | (2,178) | (303) | (2,481) |
| Recognition for tax purposes of capitalized finance costs previously written-off | (1,396) | 473 | (923) |
| Allowances for inventories to net realizable value | (350) | 15 | (335) |
| Increase in value of Property, plant and equipment (deemed cost) | 2,636,044 | (61,731) | 2,574,313 |
| Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress) | 184,306 | (6,600) | 177,706 |
| Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting | 8,577 | 222 | 8,799 |
| Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until June 30, 2007 | 25 | (9) | 16 |
| Other (derivative financial instruments) | 63 | (63) | - |
| **Total temporary differences** | **1,450,138** | **(29,842)** | **1,420,296** |
| **Deferred income tax by applying 15% tax rate, net** | **217,521** | **(4,477)** | **213,044** |
| Increase in deferred income tax due to effect of social tax | 2,187 | (1,301) | 886 |
| **Total deferred income tax, net** | **219,708** | **(5,778)** | **213,930** |
| Less: valuation allowance | 326 | 46 | 372 |
| **Deferred income tax liabilities, after assessment** | **220,034** | **(5,732)** | **214,302** |

*(continued on the following page)*

### *21. Income tax expense (continued)*

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

| | As of December 31, 2006 | Charged (credited) to the income (loss) statement | As of June 30, 2007 |
|---|---|---|---|
| Impairment of Property, plant and equipment (deemed cost) | (1,310,920) | 25,011 | (1,285,909) |
| Allowances for doubtful receivables (Baltic Shem and Liberty) | (51,909) | 12,975 | (38,934) |
| Allowances for doubtful receivables (Ekranas AB) | (9,612) | - | (9,612) |
| Vacation reserve | (2,512) | 193 | (2,319) |
| Impairment of financial assets (will be recognized for tax purposes at the moment of disposal) | (2,178) | (303) | (2,481) |
| Recognition for tax purposes of capitalized finance costs previously written-off | (1,396) | 473 | (923) |
| Allowances for inventories to net realizable value | (350) | 15 | (335) |
| Increase in value of Property, plant and equipment (deemed cost) | 2,635,097 | (61,646) | 2,573,451 |
| Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress) | 182,507 | (6,505) | 176,002 |
| Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting | 8,577 | 222 | 8,799 |
| Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until June 30, 2007 | 25 | (9) | 16 |
| Other (derivative financial instruments) | 63 | (63) | - |
| **Total temporary differences** | **1,447,392** | **(29,637)** | **1,417,755** |
| **Deferred income tax by applying 15% tax rate, net** | **217,109** | **(4,446)** | **212,663** |
| Increase in deferred income tax due to effect of social tax | 2,187 | (1,301) | 886 |
| **Total deferred income tax, net** | **219,296** | **(5,747)** | **213,549** |
| Less: valuation allowance | 326 | 46 | 372 |
| **Deferred income tax liabilities, after assessment** | **219,622** | **(5,701)** | **213,921** |

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

| | Group June 30, 2007 | Company June 30 2007 | Group December 31, 2006 | Company December 31, 2006 |
|---|---|---|---|---|
| **Profit before tax** | 41,438 | 41,246 | 31,589 | 31,587 |
| Tax at the income tax rate of 18% (2006: 19%) | 7,459 | 7,424 | 6,002 | 6,002 |
| Differences due to tax rules | 200 | 32 | 262 | 197 |
| **Income tax expense** | **7,659** | **7,456** | **6,264** | **6,199** |
| **Effective income tax rate (%)** | **18** | **18** | **20** | **20** |

## *22. Business and geographical segments*

The Group has separated six business segments (activities). As of June 30, 2007 and for the year then ended the information about these segments consisted of the following:

| **H1 2007** | **Business segments** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Electricity transmission** | **Electricity trade** | **Electricity generation** | **Electricity export** | **Nuclear power** | **Design and repair services** | **Total** |
| **Income** | **179,381** | **256,348** | **41,830** | **115,431** | - | **30,177** | **623,167** |
| *Incl. internal turnover among Company segments* | *3,535* | *1,378* | *41,830* | *14,481* | - | - | *61,224* |
| Income after elimination of internal turnover among Company segments | 175,846 | 240,970 | - | 100,950 | - | 30,177 | 547,943 |
| *Incl. internal turnover among Group companies* | - | - | - | - | - | *3,553* | *3,553* |
| **Income after elimination of internal turnover among Group companies** | **175,846** | **240,970** | - | **100,950** | - | **26,624** | **544,390** |
| **Expenses** | **157,983** | **256,760** | **39,021** | **94,056** | ***1,948*** | ***29,216*** | **578,984** |
| *Incl. internal turnover among Company segments* | *18,143* | *27,391* | *19,620* | *10,076* | - | - | *75,230* |
| Expenses after elimination of internal turnover among Company segments | 139,840 | 229,369 | 19,401 | 83,980 | 1,948 | 29,216 | 503,754 |
| *Incl. internal turnover among Group companies* | *16* | - | - | - | - | *3,319* | *3,335* |
| **Expenses after elimination of internal turnover among Group companies** | **139,824** | **229,369** | **19,401** | **83,980** | **1,948** | **25,897** | **500,419** |
| Break-down of significant items of expenses: | | | | | | | |
| Electricity purchase, purchase of capacity reserve, transmission, regulation and balancing expenses | 57,699 | 255,955 | 19,620 | 93,804 | - | - | 427,078 |
| Repair and maintenance expenses | 12,566 | 15 | 2,978 | 11 | - | 763 | 16,333 |
| Depreciation and amortization | 59,281 | 129 | 8,156 | 5 | - | 978 | 68,549 |
| Wages, salaries, social insurance and accrued vacation reserve | 19,080 | 207 | 4,064 | 172 | 129 | 10,541 | 34,193 |
| Taxes other than income tax | 1,391 | 6 | 3,197 | 6 | - | 66 | 4,666 |
| Communications and IT expenses | 2,204 | 315 | 44 | 6 | - | 137 | 2,706 |
| Utilities | 706 | 1 | 38 | 1 | - | 333 | 1,079 |
| Subcontractors | - | - | - | - | - | 10,585 | 10,585 |
| Production materials expenses | - | - | - | - | - | 4,729 | 4,729 |
| Research and development | 490 | 70 | 40 | - | 78 | - | 678 |
| Other | 4,566 | 62 | 884 | 51 | 1,741 | 1,084 | 8,388 |
| **Profit (loss) from ordinary activities** (before elimination of internal turnover) | **21,398** | **(412)** | **2,809** | **21,375** | **(1,948)** | **961** | **44,183** |
| Elimination of internal turnover | | | | | | | (212) |
| **Profit (loss) from ordinary activities** (after elimination of internal turnover) | **36,022** | **11,601** | **(19,401)** | **16,970** | **(1,948)** | **727** | **43,971** |
| Segment's assets | 2,129,542 | 39,615 | 428,521 | 22,277 | - | 49,726 | 2,669,681 |
| Unallocated assets | - | - | - | - | - | - | 34,040 |
| Segment's liabilities | 13,574 | 37,408 | 3,375 | 31,699 | - | 13,768 | 99,824 |
| Unallocated liabilities | - | - | - | - | - | - | 406,141 |
| Asset additions | 59,351 | - | 1,224 | - | - | 781 | 61,356 |
| Unallocated asset additions | - | - | - | - | - | - | 179 |
| Depreciation and amortization | 59,281 | 129 | 8,156 | 5 | - | 978 | 68,549 |
| Unallocated impairment losses recognized in profit or loss | - | - | - | - | - | - | 4,781 |
| Unallocated recovery of asset impairment | 15 | - | - | - | - | - | 15 |
| | - | - | - | - | - | - | - |

*(continued on the following page)*

### *22. Business and geographical segments (continued)*

As of June 30, 2006 and for the period then ended the information about segments consisted of the following:

| **H1 2006** | **Business segments** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Electricity transmission** | **Electricity trade** | **Electricity generation** | **Electricity export** | **Nuclear Power** | **Design and repair services** | **Total** |
| **Income** | **176,848** | **186,184** | **34,459** | **97,794** | **-** | **19,342** | **514,627** |
| *Incl. internal turnover among Company segments* | *2,650* | *12,179* | *34,459* | *13,059* | - | - | *62,347* |
| Income after elimination of internal turnover among Company segments | 174,198 | 174,005 | - | 84,735 | - | 19,342 | 452,280 |
| *Incl. internal turnover among Group companies* | - | - | - | - | - | *2,470* | *2,470* |
| **Income after elimination of internal turnover among Group companies** | **174,198** | **174,005** | **-** | **84,735** | **-** | **16,872** | **449,810** |
| **Expenses** | **161,578** | **189,184** | **32,607** | **77,468** | **94** | **19,038** | **479,969** |
| *Incl. internal turnover among Company segments* | *18,509* | *19,821* | *14,824* | *9,198* | - | - | *62,352* |
| Expenses after elimination of internal turnover among Company segments | 143,069 | 169,363 | 17,783 | 68,270 | 94 | 19,038 | 417,617 |
| *Incl. internal turnover among Group companies* | - | - | - | - | | *2,352* | *2,352* |
| **Expenses after elimination of internal turnover among Group companies** | ***143,069*** | ***169,363*** | ***17,783*** | ***68,270*** | ***94*** | ***16,686*** | ***415265*** |
| Break-down of significant items of expenses: | | | | | | | |
| Electricity purchase, purchase of capacity reserve, transmission, regulation and balancing expenses | 54,564 | 185,293 | 14,824 | 77,242 | - | - | 331,923 |
| Repair and maintenance expenses | 12,536 | 17 | 1,815 | 10 | - | 432 | 14,810 |
| Depreciation and amortization | 67,131 | 254 | 7,899 | 8 | - | 977 | 76,269 |
| Wages, salaries, social insurance and accrued vacation reserve | 16,988 | 197 | 4,186 | 158 | 52 | 8,649 | 30,230 |
| Taxes other than income tax | 1,559 | 7 | 3,187 | 7 | - | 123 | 4,883 |
| Communications and IT expenses | 2,187 | 390 | 45 | 4 | - | 101 | 2,727 |
| Utilities | 629 | 1 | 75 | 1 | - | 147 | 853 |
| Subcontractors | - | - | - | - | - | 2,923 | 2,923 |
| Production materials expenses | - | - | - | - | - | 4,631 | 4,631 |
| Research and development | 132 | 79 | 26 | - | - | - | 237 |
| Other | 5,852 | 2,946 | 550 | 38 | 42 | 1,055 | 10,483 |
| **Profit (loss) from ordinary activities** (before elimination of internal turnover) | **15,270** | **(3,000)** | **1,852** | **20,326** | **(94)** | **304** | **34,658** |
| Elimination of internal turnover | | | | | | | (113) |
| **Profit (loss) from ordinary activities** (after elimination of internal turnover) | **31,129** | **4,642** | **(17,783)** | **16,465** | **-** | **186** | **34,545** |
| Segment's assets | 2,115,012 | 25,438 | 439,086 | 15,975 | - | 41,510 | 2,637,021 |
| Unallocated assets | - | - | - | - | - | - | 50,443 |
| Segment's liabilities | 15,166 | 25,786 | 5,415 | 38,216 | - | 6,567 | 91,150 |
| Unallocated liabilities | - | - | - | - | - | - | 417,563 |
| Asset additions | 55,934 | - | 2,590 | - | - | 643 | 59,167 |
| Unallocated asset additions | - | - | - | - | - | - | 1,106 |
| Depreciation and amortization | 67,131 | 254 | 7,899 | 8 | - | 977 | 76,269 |
| Unallocated depreciation and amortization | - | - | - | - | - | - | 4,126 |
| Asset impairment | 1,829 | 2,831 | (31) | - | - | - | 4,629 |
| Unallocated asset impairment | | | | | | | (6) |

*(Continued on the following page)*

### *22. Business and geographical segments (continued)*

Secondary reporting format is geographical segments. The Company exports electricity to Russia and EU countries. In H1 2007 the Company exported 1.7 bn kWh of electricity (in H1 2006 - 1.2 bn kWh) and earned LTL 87 m from electricity exports (in H1 2006 - LTL 66.4 m). In addition to that, the Group exported metal structures and repair services.

For H1 ended June 30, 2007 and 2006 the Group and Company's sales by geographical segments consisted of the following:

| Country | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---|---|---|---|---|
| Lithuania | 455,942 | 430,755 | 381,764 | 366,512 |
| Russia | 42,063 | 41,680 | 33,841 | 33,766 |
| Finland | 17,842 | 17,842 | - | - |
| Estonia | 17,556 | 17,473 | 6,562 | 6,413 |
| Latvia | 10,028 | 10,016 | 26,263 | 26,247 |
| Germany | 867 | - | 509 | - |
| Sweden | 92 | - | - | - |
| Poland | - | - | 871 | - |
| **Total:** | **544,390** | **517,766** | **449,810** | **432,938** |

Besides direct exports, Lietuvos energija AB also sells peak energy intended for export. In H1 2007 sales of peak energy amounted to LTL 5.2 m (in H1 2006 – LTL 8.0 m). Since May 2005, the Company has also exported electricity, generated on holidays and weekends. In H1 2007 such sales amounted to LTL 8.7 m (in H1 2006 – LTL 10.2 m)

### *23. Other income*

For H1 as of June 30, 2007 and June 30 2006 the Group and Company's other income consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---|---|---|---|---|
| Data transmission | 6,296 | 6,296 | 5,449 | 5,449 |
| Internet services | 1,425 | 1,429 | 1,209 | 1,209 |
| Rental of property | 1,111 | 1,110 | 855 | 855 |
| Rental of facilities | 667 | 667 | 1,356 | 1,356 |
| Health and recreation services | 432 | 273 | 234 | 203 |
| Voice telephony services | 221 | 242 | 188 | 241 |
| IT services | 217 | 217 | 162 | 162 |
| Construction and other services | 20 | 20 | 19 | 19 |
| Gain on disposal of property, plant and equipment | 13 | 283 | 40 | 25 |
| Other income | 1,080 | 253 | 340 | 227 |
| **Total other income** | **11,482** | **10,790** | **9,852** | **9,746** |

### *24. Other expenses*

For H1 ended June 30 2007 and 2006, other expenses of Group and Company consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---|---|---|---|---|
| Depreciation and amortization | 4,200 | 4,200 | 3,735 | 3,735 |
| IT and telecommunication expenses | 2,875 | 2,875 | 2,878 | 2,878 |
| Payroll and related expenses | 1,570 | 1,476 | 1,425 | 1,355 |
| Maintenance expenses | 518 | 518 | 517 | 517 |
| Other and labor-related expenses | 628 | 628 | 631 | 631 |
| Sponsorship and charity expenses | 1 | - | 123 | 123 |
| Repairs expenses | - | - | 356 | 356 |
| Miscellaneous expenses | 1,134 | 365 | 786 | 643 |
| **Total other expenses** | **10,926** | **10,062** | **10,451** | **10,238** |

### 25. *Other net income (expenses)*

For H1 ended June 30, 2007 and 2006 other net income (expenses) consisted of the following:

| | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|---|---|---|---|---|
| Fair value gains on derivative financial instruments at fair value | - | - | 477 | 477 |
| Income from advance repayment of the borrowing | - | - | 237 | 237 |
| Dividends received | - | 413 | - | 208 |
| Other income | 17 | - | 102 | - |
| Foreign currency exchange loss | (122) | (122) | (66) | (66) |
| Fair value losses on derivative financial instruments at fair value | (63) | (63) | (100) | (100) |
| Impairment of investments | (24) | (327) | - | (815) |
| Borrowings servicing expenses | (14) | (14) | (11) | (11) |
| Other expenses | - | - | (9) | (7) |
| **Other net income (expenses)** | **(206)** | **(113)** | **630** | **(77)** |

### 26. *Related party transactions*

As of June 30, 2007 and the period, ended June 30, 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 | 63,645 | 34,339 | 215,315 | 213,521 |
| Associates | 65 | 9 | 6,043 | 58 |
| **Total** | **63,710** | **34,348** | **221,358** | **213,579** |

As of June 30, 2007 and the period, ended June 30, 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 | 63,631 | 34,158 | 213,260 | 213,473 |
| Subsidiaries | 1,773 | 30 | 3,986 | 345 |
| Associates | 65 | 9 | 6,043 | 58 |
| **Total** | **65,469** | **34,197** | **223,289** | **213,876** |

As of December 31, 2006 and for the year ended December 31, 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 December 31, 2006 and for the year ended December 31, 2006 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 | 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.

*(continued on the following page)*

### *26. Transactions with related parties (continued)*

#### *Compensation to key management personnel*

For the periods ended March 31, the Company and Group's compensation to key management personnel consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| ***Company*** | | |
| Remuneration of the management | 687 | 567 |
| 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. Earnings per share*

For H1 ended June 30, 2007 and 2006 earnings per share consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| Net profit attributable to equity holders of the Company | 33,779 | 25,325 |
| Weighted average number of shares | 689,515,435 | 689,515,435 |
| **Earnings per share (LTL)** | **0.05** | **0.04** |

### *28. Dividends per share*

Dividends per share consisted of the following:

| | For the financial year ended December 31, 2006 | For the financial year ended December 31, 2005 |
|---|---|---|
| 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 incur 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). To manage the aforesaid risks, the Group's companies seek to reduce the impact 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 on March 3, 2004.
**Credit Risk**
The credit risk of the Group and the Company is rather limited because the main buyers are reliable customers.

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

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

Ratings of the banks issued by international rating agency Fitchratings:

| Bank | Long-term credit rating | Short-term credit rating |
|---|---|---|
| SEB Vilniaus Bankas AB | A | F1 |
| Hansabank Group | A | F1 |
| AB DnB Nord bank | A | F-2 |
| Nordea Bank Finland Plc, Lithuanian branch | AA- | F-1 |

*(Continued on the following page)*

***29. Financial risk management (continued)***

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 |

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

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

As of June 30, 2007 the Group and Company's net working capital was negative and amounted to LTL'000 42,415 and LTL'000 52,343 respectively. The Group's current ratio was 0.76, the Company's – 0.68. The Group's quick ratio was 0.68, the Company's – 0.63.

As of December 31, 2006 the Group and 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

Forecast of Company's cash flows for 2007-2010, thous. Lt:

| | 2007 forecast | 2008 forecast | 2009 forecast | 2010 forecast |
|---|---|---|---|---|
| **Cash flows from core activity** | | | | |
| Net profit | **43,376** | **45,600** | **43,984** | **361** |
| **Non-cash expenses (income) recovery and other adjustments** | **147,200** | **146,000** | **144,291** | **144,800** |
| Depreciation | 164,600 | 164,600 | 164,600 | 164,600 |
| Grant amortization | (1,800) | (3,000) | (4,800) | (4,800) |
| Other adjustments | (15,600) | (15,600) | (15,509) | (15,000) |
| **Changes in working capital** | | | | |
| Decrease in inventories and pre-payments | 200 | 100 | 100 | 100 |
| Decrease (increase) in receivables for one year | 15,031 | (20,565) | (788) | 18,373 |
| Decrease (increase) in other current assets | 46 | - | (353) | (7,286) |
| *Decrease (in crease) in current assets)* | *15,277* | *(20,465)* | *(1,041)* | *11,187* |
| Increase (decrease) in short-term trade payables | 4,168 | 929 | 1,304 | (18,895) |
| (Decrease) in advances received | (100) | (100) | (522) | - |
| Increase in income tax liabilities (decrease) | 2,383 | (3,764) | (1,495) | - |
| Increase in payroll-related liabilities | 94 | 101 | 110 | 74 |
| Increase (decrease) in other accounts payable and short-term liabilities | (1,430) | 2,032 | 228 | 5,163 |
| *Increase (decrease) in short-term liabilities (except loans)* | *5,115* | *(802)* | *(375)* | *(13,658)* |
| *Increase (decrease) in working capital* | *20,392* | *(21,267)* | *(1,416)* | *(2,471)* |
| **Net cash flows from operating activities** | **210,968** | **170,333** | **186,859** | **142,690** |
| **Cash flows from / (to) investing activities** | | | | |
| Investments to non-current assets | (162,640) | (159,490) | (160,720) | (165,970) |
| Grants and subsidies | 6,360 | 3,000 | 6,500 | - |
| EU grants | 13,422 | 15,086 | - | - |
| Decrease in non-current financial assets | 888 | 888 | 888 | 888 |
| **Net cash flows from / (to) investment activities** | **(141,970)** | **(140,516)** | **(153,332)** | **(165,082)** |
| **Cash flows from / (to) financial activities** | | | | |
| Dividends paid | (11,901) | (17,433) | (18,229) | (17,632) |
| Long-term loans received | 12,500 | 18,500 | 28,500 | 61,000 |
| Long-term loans repaid | (69,392) | (30,554) | (43,418) | (20,833) |
| Short-term loans received | 420,000 | 420,000 | 420,000 | 420,000 |
| Short-term loans repaid | (420,000) | (420,000) | (420,000) | (420,000) |
| ***Net cash flows to financing activities*** | **(68,793)** | **(29,487)** | **(33,147)** | **22,535** |
| **Net change in cash flow** | **205** | **330** | **380** | **143** |
| **Cash at the beginning of the period** | **1,935** | **2,140** | **2,470** | **2,850** |
| **Cash at the end of the period** | **2,140** | **2,470** | **2,850** | **2,993** |

*(continued on the following page)*

### *29. Financial risk management (continued)*

Company loans forecast for 2007-2010, thous. LTL:

| | 2007 forecast | 2008 m. forecast | 2009 m. forecast | 2010 m. forecast |
|---|---|---|---|---|
| **Long-term loans** | | | | |
| Balance as of beginning of the period | 151,528 | 94,636 | 82,582 | 67,664 |
| Received | 12,500 | 18,500 | 28,500 | 61,000 |
| Repaid | 69,392 | 30,554 | 43,418 | 20,833 |
| Balance as of end of the period | 94,636 | 82,582 | 67,664 | 107,831 |
| Interest expense | 5,521 | 4,830 | 3,825 | 4,185 |
| Interest cost | 5,384 | 4,420 | 3,551 | 3,799 |
| Current share | - | - | - | - |
| ***Of which new long-term loans*** | | | | |
| Balance as of the beginning of the period | - | - | - | 7,783 |
| Received | - | - | 7,783 | 47,189 |
| Repaid | - | - | - | 5,000 |
| Balance as of end of the period | - | - | 7,783 | 49,972 |
| Interest cost | - | - | 99 | 1,016 |
| **Short-term loans** | | | | |
| Balance as of beginning of the period | - | - | - | - |
| Received | 420,000 | 420,000 | 420,000 | 420,000 |
| Repaid | 420,000 | 420,000 | 420,000 | 420,000 |
| Balance as of end of the period | - | - | - | - |
| Interest expense | 701 | 701 | 701 | 701 |
| Servicing expense | - | - | - | - |
| Interest cost | 701 | 701 | 701 | 701 |

Company management controls liquidity risk by preparing cash flow forecasts.

Company liquidity forecast for 2007-2010, in accordance with cash flow forecast presented above, thous. LTL:

| | 2007 forecast | 2008 forecast | 2009 forecast | 2010 forecast |
|---|---|---|---|---|
| **Current assets:** | | | | |
| Inventory | 6,193 | 6,093 | 5,993 | 5,893 |
| Prepayments | 2,341 | 2,341 | 2,341 | 2,341 |
| Trade receivables | 84,353 | 106,131 | 107,294 | 90,806 |
| Other receivables | 8,839 | 7,626 | 7,249 | 5,366 |
| Income tax overpayment | - | - | 354 | 7,639 |
| Cash and cash equivalents | 1,516 | 5,578 | 6,491 | 6,654 |
| **Total short-term assets** | **103,242** | **127,769** | **129,722** | **118,699** |
| **Short-term liabilities:** | | | | |
| Loans | 4,085 | 43,418 | 15,833 | 2,022 |
| Income tax payable | 5,260 | 1,495 | - | - |
| Trade and other payables | 145,755 | 148,707 | 149,822 | 136,152 |
| **Total short term liabilities** | **155,100** | **193,620** | **165,655** | **138,174** |
| Working capital | (51,858) | (65,851) | (35,933) | (19,475) |
| General liquidity indicator | 0.67 | 0.66 | 0.78 | 0.86 |
| Urgent covering indicator | 0.63 | 0.63 | 0.75 | 0.82 |

**Market risk**

**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 ceiling price of the electricity transmission service (three years). The loan portfolio of the Group is formed on the basis of the following principle: at least 50% of all the borrowings must be with fixed interest rate, the remaining borrowings – with floating interest rate.

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

*(Continued on the following page)*

### *29. Financial risk management (continued)*

The Company manages the interest rate risk by entering into interest swap agreements, usually- 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 the fixed one, thus 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 base-rate is projected in the future and hence the interest payable by the Company at the floating interest rate can increase as well, or when the decrease of base-rate is projected in the future and hence the interest payable by the Company at the fixed interest rate can grow as well.

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 falling on June 30, 2007.

If during the H1 2007 no derivative agreements were concluded by the Company (interest rate swap agreements) and the interest rates on the loans disbursed to the company were higher by 0.1 per cent, the net profit of the Company would have been lower by 0.15%. If on June 30, 2007 the interest rates on the lows disbursed to the Company were lower by 0.1 percent, the Company's net profit would have been higher by 0.14 % .

If in 2006 no derivative agreements were concluded by the Company (interest rate swap agreements) and the interest rate on the loans disbursed to the company would have been higher by 0.1 per cent, the net profit of the Company would have been lower by 1.66%. If on June 30, 2007 the interest rates on the loans disbursed to the Company were lower by 0.1 percent, the Company's net profit would have been higher by 0.02 %.

**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.

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.

As of June 30, 2007 monetary assets and liabilities in various currencies consisted of the following:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **Asset** | **Liabilities** | **Asset** | **Liabilities** |
| LTL | 98,846 | 417,179 | 86,241 | 405,222 |
| EUR | 26,729 | 88,248 | 23,889 | 88,197 |
| USD | 50 | 488 | 29 | 488 |
| RUR | 108 | 50 | - | - |
| LVL | 44 | - | 34 | - |
| EEK | 17 | - | - | - |
| **Total** | **125,794** | **505,965** | **110,193** | **493,907** |

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

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

**Risk of security prices**
The Group's companies have not acquired any securities (shares, bonds, etc.) for trading in securities thus they do no 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 on their acquisition value which is respectively adjusted depending on the financial results of these companies. The increase/ decrease in the value of these investments directly impact the financial results of the Group's companies. The Group 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 June 2014 respectively.

As of June 30, 2007, the guarantee issued by the bank Hansabankas AB on the request of the Company was in effect: Beneficiary - Vilnius Municipality, amount - LTL'000 16, type - performance security, maturity- 2 December 2009;

Lietuvos branch of Nordea Bank Finland Plc. issued the following guarantees which were in effect on June 30, 2007:
1. Beneficiary - Fabryka Kotlow RAFAKO S.A., amount – EUR'000 55,838 EUR (LTL 000'192,798.34), type- performance security, expiration of validity – October 1, 2008.
2. Beneficiary – Fabryka Kotlow RAFAKO S.A., amount - EUR' 000 56,756 EUR (LTL 000'195,966.08), type- performance security , expiration of validity – March 30, 2009.

**Legal proceedings**
As of June 30, 2007 and December 31, 2006 the Group and the Company were not involved in legal proceedings which in the opinion of the management would have a material impact on the financial statements.

### *31. Subsequent events*

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

On July 30, 2007 Lietuvos Energija AB and the consortium, comprised of specialists of Finnish company Poyry Energy Oy and scholars of Lithuanian Energy Institute presented to the public the draft program of environmental impact assessment (EIA) of the construction of a new nuclear power plant

The draft EIA program provides an outline of environmental impact assessment of construction and operation of a new nuclear power plant in Lithuania of up to 3 400 MW capacity: impact to residents, water systems, air quality, soil, fauna, protected territories, landscape, cultural heritage, etc. Moreover, there will also be a description of environmental impact, conditioned by disposal of used nuclear fuel and other possible projects, related to intended operation of the plant. There will be an assessment of two territorial alternatives within the area of the existing Ignalina Nuclear Power Plant and three possible technological alternatives for the reactors: boiling water, compressed water or compressed heavy water. There will also be an assessment of zero alternative – an environmental impact in case no new nuclear power plant is constructed in Lithuania. After consideration of conclusions of responsible state authorities, opinion of residents, results of cross-border consultations with Latvia, Belarus and other countries, which may face an impact of operation of a nuclear power plant, a final decision will be adopted regarding the construction of a new nuclear power plant.

The environmental impact assessment is conducted in two stages. The first stage deals with preparation of EIA program and its presentation for assessment by state authorities and the public. The program defines the contents of EIA report, issues to be analyzed therein. The second stage focuses on the development of EIA report, based on the approved EIA program as well as opinions and proposals of various interested parties.

The completion of EIA is scheduled by the end of 2008.

On July 31, 2007 a working group, composed of representatives of Lietuvos Energija AB and Polskie Sieci Elektroenergetyczne (Poland), signed a final document of a feasibility study of interconnection of Lithuanian and Polish power systems, confirming that the project is technically, legally and economically feasible, provided that not less than 75 per cent of its implementation costs are covered by funds of the European Union.

The implementation of the project will ensure the reliability of power supply in Lithuania and the Baltic States, their integration into the common European power market and creation of conditions for a more efficient use of energy resources. The interconnection between power systems includes the construction of 154 km high-voltage (400 kV) double-circuit power transmission line from Alytus to Elk (Poland). The preliminary completion of the project is foreseen in 2012. Its implementation will require Eur237 million of investments – Eur71 million in Polish territory and Eur166 million – in Lithuanian territory.

In order to ensure transmission capacity and cross-border flows between both countries it is necessary to develop both – Lithuanian and Polish power grids. This will require additional investments – Eur371 million in Poland and Eur95 million in Lithuania. The investments for development of power grids must be provided by the project parties themselves.

*(Continued on the following page)*

***31. Subsequent events (continued)***

The construction of the missing chain will complete the Baltic Power Ring, interconnecting Lithuanian, Latvian, Estonian, Finnish, Swedish and Polish power systems, which will help to ensure security and reliability of operation of the Baltic power grids. The project has been enlisted among priority projects of the European Union, a coordinator has been appointed for its implementation.

The working group, which has performed a legal, financial and technical analysis, has also prepared documents requisite for the establishment of a joint venture, responsible for the implementation of the power bridge project. The joint venture will be established in Lithuania, the procedures are to be finalized by this autumn.

On August 18, 2007 Unit 2 of Ignalina Nuclear Power Plant (INPP) was be taken offline for scheduled maintenance for nearly a month and a half. Lietuvos Energija AB will ensure the supply of electricity across the country, using possibilities of other Lithuanian power plants and imports from Russia, Estonia and Scandinavian countries.
The anticipated domestic demand during the overhaul of INPP is around 900 million kWh. About 37 per cent of electricity, necessary to cover the demand of Lithuanian consumers will be generated in domestic power plants, 63 per cent – imported.

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