LIETUVOS ENERGIJA

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

Ref. No SD-2200
2008-02-29

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, I, the undersigned Rimantas Šukys, Finance Director of Lietuvos Energija AB hereby confirm that, to the best of my knowledge, the consolidated unaudited interim financial statements for the twelve month period 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 for the relevant period.

Enclosures: Lietuvos Energija AB consolidated unaudited Interim Financial Statements for the twelve month period of 2007 – 44 pages.

AKCINĖ BENDROVĖ LIETUVOS ENERGIJA • LIETUVOS RESPUBLIKA • VILNIUS
LIETUVOS ENERGIJA

Rimantas Šukys
Finance Director

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

Financial statements for the year ended December 31, 2007

DRAFT

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Rimantas Šukys
Finance Director

BALANCE SHEETS
As of December 31, 2007
All amounts are in LTL thousand, unless stated otherwise

	Notes	Group 2007	Company 2007	Group 2006	Company 2006
ASSETS					
Non-current assets:					
Intangible assets	4	5,105	5,003	6,822	6,751
Property, plant and equipment	5	2,569,054	2,544,042	2,548,338	2,522,033
Investments in subsidiaries	6	-	34,116	-	31,755
Investments in associates	6	21,040	20,625	21,172	21,172
Accounts receivable	7	1,978	1,978	7,792	7,792
Other financial assets		50	15	344	309
Total non-current assets		**2,597,227**	**2,605,779**	**2,584,468**	**2,589,812**
Current assets:					
Inventories	8	12,838	6,144	12,702	6,393
Prepayments		2,772	2,137	2,613	2,353
Trade receivables	9	121,370	105,067	95,774	88,125
Other receivables	10	11,805	11,485	9,088	8,990
Other assets		3	-	686	678
Term deposits	11	150	-	150	-
Cash and cash equivalents	12	18,318	14,566	4,788	1,357
Total current assets		**167,256**	**139,399**	**125,801**	**107,896**
TOTAL ASSETS		**2,764,483**	**2,745,178**	**2,710,269**	**2,697,708**
EQUITY AND LIABILITIES					
Capital and reserves:					
Share capital	13	689,515	689,515	689,515	689,515
Share premium		3	3	3	3
Legal reserve	14	70,730	68,952	70,407	68,952
Other reserves	15	1,404,786	1,402,660	1,394,560	1,392,429
Retained earnings		47,335	48,911	17,651	18,385
Foreign currency translation reserve		(2)	-	(6)	-
Equity attributable to equity holders of the Parent		**2,212,367**	**2,210,041**	**2,172,130**	**2,169,284**
Minority interest		1	-	1	-
Total equity		**2,212,368**	**2,210,041**	**2,172,131**	**2,169,284**
Non-current liabilities:					
Borrowings	16	61,903	61,903	70,440	70,440
Issued bonds	18	25,896	25,896	25,896	25,896
Obligations under finance leases	17	-	-	119	-
Grants	19	50,871	50,819	24,340	24,265
Deferred income tax liabilities	21	208,486	208,129	220,034	219,622
Total non-current liabilities		**347,156**	**346,747**	**340,829**	**340,223**
Current liabilities:					
Borrowings	16	2,022	2,022	20,581	20,581
Obligations under finance leases	17	118	-	263	-
Current income tax liabilities		4,237	4,104	1,334	1,287
Trade and other payables	20	198,582	182,264	175,131	166,333
Total current liabilities		**204,959**	**188,390**	**197,309**	**188,201**
Total liabilities		**552,115**	**535,137**	**538,138**	**528,424**
TOTAL EQUITY AND LIABILITIES		**2,764,483**	**2,745,178**	**2,710,269**	**2,697,708**

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

INCOME (LOSS) STATEMENTS
For the year ended December 31, 2007
All amounts are in LTL thousand, unless stated otherwise

	Notes	Group 2007	Company 2007	Group 2006	Company 2006
Sales	22	1,176,806	1,110,718	980,266	938,906
Operating expenses	22	(1,110,808)	(1,046,368)	(946,251)	(906,003)
Other operating income	23	23,455	22,350	21,805	21,333
Other operating expenses	24	(23,708)	(22,254)	(26,932)	(26,132)
Other gains (losses), net	25	(530)	(698)	106	(1,739)
OPERATING PROFIT		**65,215**	**63,748**	**28,994**	**26,365**
Finance income		542	467	683	618
Finance costs		(5,428)	(5,410)	(5,256)	(5,234)
Share of profit of associates		415	-	-	-
Share of loss of associates		(547)	-	(1,960)	-
PROFIT BEFORE INCOME TAX		**60,197**	**58,805**	**22,461**	**21,749**
Income tax expense	21	(11,818)	(11,454)	(3,756)	(3,388)
NET PROFIT		**48,379**	**47,351**	**18,705**	**18,361**
ATTRIBUTABLE TO:					
Equity holders of the Parent		48,378	47,351	18,705	18,361
Minority interest		1	-	-	-
		48,379	**47,351**	**18,705**	**18,361**
Basic and diluted earnings per share (LTL)	**27**	**0.07**	**0.07**	**0.03**	**0.03**

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007
All amounts are in LTL thousand, unless stated otherwise

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	-	-	-	(3,613)	3,613	-	-	-	-
Net profit for the period		-	-	-	-	18,705	-	18,705	-	18,705
Balance as of December 31, 2005		-	-	-	-	-	(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)	(2,160)	2,162	-	-	-	-
Net profit for the period		-	-	-	-	48,378	-	48,378	-	48,378
Changes in capital resulting from currency exchange		-	-	-	-	-	4	4	-	4
Reduction in share capital of an associate		-	-	-	-	9	-	9	-	9
Balance as of December 31, 2007		**689,515**	**3**	**70730**	**1,404,786**	**47,335**	**(2)**	**2,212,367**	**1**	**2,212,368**

(Continued on the following page)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007
All amounts are in LTL thousand, unless stated otherwise

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	-	-	-	(3,524)	3,524	-
Net profit for the period		-	-	-	-	18,361	18,361
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		-	-	-	-	47,351	**47,351**
Revaluation result of non-current assets	6	-	-	-	1,560	-	1,560
Disposal of non-current assets	6	-	-	-	(1,560)	1,560	-
Balance as of December 31, 2007		**689,515**	**3**	**68,952**	**1,402,660**	**48,911**	**2,210,041**

(Concluded)

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

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

STATEMENTS OF CASH FLOWS
For the year ended December 31, 2007
All amounts are in LTL thousand, unless stated otherwise

	Group 2007	Company 2007	Group 2006	Company 2006
Net profit	48,379	47,351	18,705	18,361
Adjustments for non-cash expenses (income) items and other adjustments				
Depreciation and amortization	147,551	145,625	161,558	159,614
Change in deferred income tax liabilities	(11,547)	(11,493)	(15,589)	(15,536)
Reversal of deferrals expense		-	(1,521)	(1,521)
Decrease in asset value (reversal of decrease)	1,335	1,796	6,029	7,897
Financial result share of associates	132	-	1,960	-
Income and social tax expense	23,365	22,947	19,345	18,924
Income from grants	(1,527)	(1,504)	(999)	(976)
(Profit) loss from disposal of non-current assets (excluding financial assets)	1,123	1,249	3,348	3,400
- Dividends				
- Foreign currency exchange loss, net	-	(413)	-	(208)
- Finance costs	380	373	92	83
- Finance income	5,428	5,410	5,256	5,234
- Loss from realized financial instruments	(542)	(467)	(683)	(618)
- Loss (gain) from other financial activities				
- Dividends	137	131	(602)	(592)
Changes in working capital				
(Increase) in inventories	(177)	295	1,097	(673)
Decrease (increase) in prepayments	(159)	216	(1,406)	(1,229)
(Increase) decrease in trade receivables	(29,191)	(20,534)	11,022	11,426
Decrease in other receivables	3,228	3,448	2,012	1,629
Decrease (increase) in other current assets	302	294	(11)	(14)
(Decrease) in current trade payables and advances received	22,835	21,463	(6,319)	(4,230)
Increase in payroll related liabilities	583	(200)	620	338
Increase (decrease) in other accounts payable	5,711	348	2,388	1,299
Decrease in deferrals			(688)	(688)
Income tax paid	(20,465)	(20,131)	(18,494)	(18,033)
Net cash flows from operating activities	***196,881***	***196,204***	***187,120***	***183,887***
Cash flows from / (to) investing activities				
Purchases of property, plant and equipment and intangible assets	(141,693)	(141,163)	(144,036)	(142,274)
Proceeds on disposal of property, plant and equipment and intangible assets	819	827	670	588
Loan repayments received	298	298	1,489	1,489
Term deposits	-	-	(150)	
Acquisition of investments	-	(802)	-	-
Loans given	(3,222)	(3,222)		
Transfer of investments	886	886	51	51
Dividends received	-	413	-	208
Interest received	566	491	665	601
Net cash flows to investing activities	***(142,346)***	***(142,272)***	***(141,311)***	***(139,337)***
Cash flows from / (to) financial activities				
Loans received	413,862	413,862	166,275	166,275
Bonds listed	-	-	25,896	25,896
Bonds redeemed	-	-	(25,896)	(25,896)
Loans repaid	(440,959)	(440,959)	(199,970)	(199,970)
Repayments of obligations under finance leases	(263)	-	(594)	
Dividends paid	(8,074)	(8,074)	(8,084)	(8,084)
Interest paid	(5,440)	(5,421)	(5,018)	(4,995)
Realized derivatives	(63)	(63)	395	395
Cash flows from other financing activities	(68)	(68)	237	237
Net cash flows from financing activities	***(41,005)***	***(40,723)***	***(46,759)***	***(46,142)***
Net cash increase (decrease)	**13,530**	**13,209**	**(950)**	**(1,592)**
Cash and cash equivalents at the beginning of the period	4,788	1,357	5,738	2,949
Cash and cash equivalents at the end of the period	18,318	14,566	4,788	1,357

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

1. General information

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

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 either in 2006 or 2007 and as of December 31, 2007 amounted to LTL 689,515,435 and was divided into 689,515,435 ordinary registered shares with the nominal value of one Litas each. All the shares are fully paid. The shares of the Company are traded on Vilnius Stock Exchange in the current trading list. During 2007 and 2006 the Company did not purchase its own shares. As of December 31, 2007 the main shareholder of Lietuvos Energija AB was the state of Lithuania holding 96.5% of the Company's shares. The key manager of the state-owned shares is the Ministry of Economy of the Republic of Lithuania. The remaining 3.5 of the Company's shares are held by other shareholders.

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

Licensed activities or activities that require permits can be carried out only after obtaining the appropriate licenses or permits. Since 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 December 31, 2007 the Company had 2 branches: Kaunas Hydro Power Plant (HPP) and Kruonis Pumped Storage Plant (PSP). The branches are operating according to the regulations approved by the Board of the Company for every branch individually.

At the date of these financial statements the Company directly participated (controlled or had significant influence) in the management of 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 and Kaliningradskij Energoremont OOO. On October 4, 2007 by decision No.6-12/119368 of enterprise registry office of the Republic of Latvia, Rigas Energetikas Remonts SIA was unregistered from commercial register. Before the unregister date, 100 per cent of Rigas Energetikas Remonts SIA shares were owned by Kauno Energetikos Remontas UAB.

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

(continued on the following page)

1. General information (continued)

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

On March 8, 2006 the heads of three Baltic energy companies – Lietuvos Energija AB, Eesti Energia AS and Latvenergo AS signed a memorandum of understanding regarding the preparation for construction of a new nuclear 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, 2006 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, Law No. X-1446 on modification of Articles 8, 10, 11, 20 and amendment. For further information see Note 31 *Subsequent Events*.

The Company actively searches for opportunities to join the alternative electricity 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 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 October 18, 2007 an international rating agency Standard & Poor's revised a corporate long-term credit rating for borrowings in foreign currency. It confirmed rating A- and established a stable rating outlook. The short-term credit rating for borrowings in foreign currency is A-2.

2. *Significant accounting policies*

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

2.1 Basis of representation

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

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for Property, plant and equipment, acquired before January 1, 2004, which are stated at deemed cost less any subsequent accumulated depreciation and accumulated impairment loss (see item 2.7 below) and revaluation of derivative financial instruments to fair value.

In the 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 January 1, 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.

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

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

- IAS 1 (Amendment), Capital disclosures (effective for annual periods beginning on or after January 1, 2007);
- IFRS 7, Financial Instruments: Disclosure (supersedes IAS 30) (effective for annual periods beginning on or after January 1, 2007);
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective for annual periods beginning on or after March 1, 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006, but not adopted by the EU yet);

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

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

- IFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009);
- IAS 1, Comprehensive Revision (amendment) (effective for annual periods beginning on or after January 1, 2009);
- IAS 23, Borrowing Costs (amendment) regarding capitalization of borrowing costs (effective for annual periods beginning on or after January 1, 2009);
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective for annual periods beginning on or after March 1, 2006);
- IFRIC 11, IFRS 2, Group Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007)
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 1, 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.

2.3 Basis of consolidation

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

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

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

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

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

2.4 Business Combinations

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

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

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

2.5 Investments in subsidiaries

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

2.6 Investments in associates

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

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

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

2.7 Property, plant and equipment

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, with the acquisition value in excess of LTL 2,000 are capitalized. Real estate is capitalized, with no regards to its acquisition cost.

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

Groups of non-current assets	**Useful lives (years)**
Buildings and structures	7 - 75
Machinery and equipment	4 - 40
Vehicles	4 - 10
Other equipment, tools and devices	3 - 15
Other 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.

2.8 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 at each balance sheet date, and whenever there is an indication that the asset may be impaired.

(Continued on the following page)

2.8 Value impairment of plant, property and equipment and non-current intangible assets (continued)

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

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

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

2.9 Financial assets

Investments are recognized and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, by adding direct transaction costs.
Financial assets are classified into the following specified categories: "held to maturity investments" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Effective interest method</u>
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.

<u>Held-to-maturity financial assets</u>
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.

<u>Loans and receivables</u>
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.

<u>Impairment of financial assets</u>
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.

2.10 Inventories

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

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in banks, demand deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and 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.

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

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

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

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

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

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

2.13 Foreign currency translation

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

The applicable rates used for principal currencies were as follows:

December 31, 2007			December 31, 2006		
1 EUR	=	3.4528 LTL	1 EUR	=	3.4528 LTL
1 LVL	=	4.9567 LTL	1 LVL	=	4.9537 LTL
100 RUB	=	9.6085 LTL	100 RUR	=	9.9708 LTL
10 SEK	=	3.6437 LTL	10 SEK	=	3.8251 LTL
1 USD	=	2.3572 LTL	1 USD	=	2.6304 LTL
10 EEK	=	2.2067 LTL	10 EEK	=	2.2067 LTL

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

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

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

2.14 Grants

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

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

2.15 Lease

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

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

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

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

2.16 Business and geographical segments

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

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

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

2.17 Revenues and expenses recognition

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

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

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

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

Dividend income is recognized when the right to receive payment is established. Received dividends are recorded in the cash flow statement as cash flows from investing activities. Dividends of the subsidiaries allocated to the patronizing company, are eliminated in the consolidated financial statements.

Expenses are recognized in profit or loss when incurred.

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

2.18 Finance costs

All finance costs are recognized in profit or loss when incurred

2.19 Income tax

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

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

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

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

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

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

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

2.20 Earnings per share

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

2.21 Contingencies

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

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

2.22 Subsequent events

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

2.23 Related parties

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

3. Critical judgments and uncertainty

3.1 Critical judgments in applying the entity's accounting policies

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

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

3.2 Key sources of estimation uncertainty

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

Impairment of Property, plant and equipment
The Company and the Group makes an assessment, at least annually, whether there are any indications that Property, plant and equipment have suffered any impairment. If that is the case, the Company and the Group makes an impairment test in accordance with the accounting policy set out in Note 2. The recoverable amount of cash-generating units is determined based on value-in-use calculations. As of December 31, 2007 and December 31, 2006 there were no indications that property, plant and equipment was impaired.

4. Intangible assets

As of December 31, 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	951	2,488	-	3,439
- disposals (-)	(27)	(94)	(3)	(124)
As of December 31, 2006	**2,329**	**16,698**	**43**	**19,070**
- additions	8	1,053	-	1,061
- disposals (-)	-	(117)	(7)	(124)
As of December 31, 2006	**2,337**	**17,634**	**36**	**20,007**
Amortization				
As of December 31, 2005	**518**	**9,172**	**7**	**9,697**
- amortization	560	2,105	7	2,672
- disposals (-)	(27)	(94)	-	(121)
As of December 31, 2006	**1,051**	**11,183**	**14**	**12,248**
- amortization	663	2,107	8	2,778
- disposals (-)	-	(117)	(7)	(124)
As of December 31, 2007	**1,714**	**13,173**	**15**	**14,902**
Carrying amount				
As of December 31,2006	**1,278**	**5,515**	**29**	**6,822**
As of December 31, 2007	**623**	**4,461**	**21**	**5,105**

As of December 31, 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	2,469	-	3,412
- disposals (-)	(14)	(94)	-	(108)
As of December 31, 2006	**2,277**	**16,625**	**7**	**18,909**
- additions	-	993	-	993
- disposals (-)	-	(117)	(7)	(124)
As of December 31, 2007	**2,277**	**17,501**	**-**	**19,778**
Amortization				
As of December 31, 2005	**490**	**9,140**	**7**	**9,637**
- amortization	543	2,086	-	2,629
- disposals	(14)	(94)	-	(108)
As of December 31, 2006	**1,019**	**11,132**	**7**	**12,158**
- amortization	648	2,093	-	2,741
- disposals (-)	-	(117)	(7)	(124)
As of December 31, 2007	**1,667**	**13,108**	**-**	**14,775**
Carrying amount				
As of December 31, 2006	**1,258**	**5,493**	**-**	**6,751**
As of December 31, 2007	**610**	**4,393**	**-**	**5,003**

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

Group of non-current intangible assets	**Group 2007**	**Company 2007**	**Group 2006**	**Company 2006**
Patents and licenses	555	555	296	296
Software	9,521	9,478	7,294	7,294
Other intangible assets		-	7	7
Total	**10,076**	**10,033**	**7,597**	**7,597**

5. Property, plant and equipment

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

Group	Land	Buildings and structures	Machinery and equipment	Vehicles	Other equipment, tools and devices	Construction in progress	Other PPE	Total
Acquisition (deemed) cost								
As of December 31, 2005	**-**	**2,362,156**	**280,363**	**20,238**	**111,865**	**76,064**	**18,350**	**2,869,036**
- additions	-	3,411	3,069	3,202	6,131	92,680	41,121	149,614
- disposals (-)	-	(5,286)	(3,043)	(691)	(339)	-	(36)	(9,395)
- reclassifications +/(-)	-	72,479	17,043	-	5,958	(73,146)	(22,334)	-
As of December 31, 2006	**-**	**2,432,760**	**297,432**	**22,749**	**123,615**	**95,598**	**37,101**	**3,009,255**
- additions	84	5,039	3,485	2,697	5,698	137,656	14,403	169,062
- disposals (-)	-	(3,350)	(2,027)	(553)	(1,017)	(9)	-	(6,956)
- reclassifications +/(-)	-	55,720	12,258	-	6,710	(34,770)	(39,918)	-
December 31, 2007	**84**	**2,490,169**	**311,148**	**24,893**	**135,006**	**198,475**	**11,586**	**3,171,361**
	-							
Depreciation								
As of December 31, 2005	-	**221,641**	**38,944**	**8,578**	**36,850**	**-**	**181**	**306,194**
- depreciation	-	113,653	22,161	4,152	18,839	-	81	158,886
- disposals (-)	-	(2,840)	(1,664)	(569)	(305)	-	(3)	(5,381)
- reclassifications +/(-)	-	(10)	15	-	-	-	(5)	-
As of December 31, 2006	**-**	**332,444**	**59,456**	**12,161**	**55,384**	**-**	**254**	**459,699**
- depreciation	-	101,112	20,325	3,178	20,077	-	82	144,774
- disposals (-)	-	(1,264)	(1,935)	(543)	(901)	-	-	(4,643)
December 31, 2007		**432,292**	**77,846**	**14,796**	**74,560**		**336**	**599,830**
Impairment								
As of December 31, 2005		**11**	**-**	**58**	**-**	**-**	**34**	**103**
- impairment		1,207	-		-	-	-	1,207
- reversals (-)		-	-	(58)	-	-	(34)	(92)
December 31, 2006		**1,218**	-	-	-	-	-	**1,218**
- disposals (-)		(30)	-	-	-	-	-	(30)
- impairment for the year		193	369		727		-	1,289
December 31, 2007		**1,381**	**369**	**-**	**727**	**-**	**-**	**2,477**
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 December 31, 2007	**84**	**2,056,496**	**232,933**	**10,097**	**59,719**	**198,475**	**11,250**	**2,569,054**

(Continued on the following page)

5. Property, plant and equipment (continued)

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

Company	Land	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	-	2,828	1,929	2,766	6,100	92,840	41,013	147,476
- disposals (-)	-	(5,286)	(2,829)	(556)	(339)	-	(36)	(9,046)
- reclassifications +/(-)	-	72,916	16,869	-	5,958	(73,410)	(22,333)	-
As of December 31, 2006	-	**2,414,303**	**287,709**	**20,482**	**123,316**	**96,148**	**36,234**	**2,978,192**
- additions	84	4,254	2,587	2,469	5,686	138,773	14,374	168,227
- disposals (-)	-	(3,118)	(1,881)	(442)	(1,017)	(9)	-	(6,467)
- reclassifications +/(-)	-	55,794	12,256	-	6,710	(34,842)	(39,918)	-
As of December 31, 2007	**84**	**2,471,233**	**300,671**	**22,509**	**134,695**	**200,070**	**10,690**	**3,139,952**
Depreciation								
As of December 31, 2005	-	**220,816**	**37,242**	**8,139**	**36,751**	-	**76**	**303,024**
- depreciation	-	113,263	21,137	3,788	18,761	-	36	156,985
- disposals (-)	-	(2,839)	(1,465)	(448)	(304)	-	(1)	(5,057)
- reclassifications +/(-)	-	(11)	16	-	-	-	(5)	-
As of December 31, 2006	-	**331,229**	**56,930**	**11,479**	**55,208**	-	**106**	**454,952**
- depreciation	-	100,711	19,249	2,874	20,014	-	35	142,883
- disposals (-)	-	(1,256)	(1,799)	(435)	(901)	-	-	(4,391)
As of December 31, 2007	-	**430,684**	**74,380**	**13,918**	**74,321**	-	**141**	**593,444**
Impairment								
As of December 31, 2005	-	-	-	**58**	-	-	**34**	**92**
- impairment	-	1,207	-	-	-	-	-	1,207
- reversals (-)	-	-	-	(58)	-	-	(34)	(92)
As of December 31, 2006	-	**1,207**	-	-	-	-	-	**1,207**
- impairment for the year	-	192	369	-	728	-	-	1,289
- disposals (-)		(30)	-	-	-	-	-	(30)
As of December 31, 2007	-	**1,369**	**369**	-	**728**	-	-	**2,466**
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 December 31, 2007	**84**	**2,039,180**	**225,922**	**8,591**	**59,646**	**200,070**	**10,549**	**2,544,042**

In 2007 the Company completed the following major investment projects:

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

(Continued on the following page)

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

As of December 31, 2007 and 2006 the carrying amount of the Group's property, plant and equipment, acquired under finance leases, consisted of the following:

Group of property, plant and equipment	2007	2006
Machinery and equipment	1,196	1,334
Vehicles	102	130
Total	**1,298**	**1,464**

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

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

The Group has significant contractual capital commitments to acquire property, plant and equipment, which will have to be met in subsequent years. The Company has started the implementation of Kaunas HPP rehabilitation investment project, amounting to LTL'000 48,459 and EUR'000 23,670 (total amount LTL'000 130,187) of which MLTL 30 will be financed from European Union structural funds, national budget and other state monetary funds. The contractor of the project – Alstom Power Sweden AS. The project is scheduled to be finished in 2008.

6. *Investments*

As of December 31, 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 each of 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% of shares in the subsidiary. The share capital of the newly established subsidiary amounts to LTL'000 2,361 and is divided into 23,610 ordinary shares at par value of LTL 100 each. The objective of Kruonio Investicijos UAB operations - the development of social and recreation facilities.

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

In addition to the aforesaid subsidiaries, the Group and 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% of Baltijas Energosistemu Dispečeru Centrs BO SIA shares.

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

Company 2007	Acquisition cost	Ownership of shares (per cent)	Impairment	Carrying amount
Geoterma UAB	4,373	23.44	(2,726)	1,647
Nordic Energy Link AS	18,978	25	-	18,978
Total	**23,351**		**(2,726)**	**20,625**

(Continued on the following page)

6. Investments (continued)

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

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

Financial position as of December 31, 2007 and operating results for the year ended December 31, 2007 of the associates consisted of the following:

Company 2007	Assets	Liabilities	Revenue	Net earnings (loss)
Geoterma UAB	55,472	48,445	2,202	(3,503)
Nordic Energy Link AS*	339,678	262,105	60,874	2,784

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

For the year ended December 31, 2007 and 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	(59)	(606)	(416)	(2,376)
Share of financial result of associates	(132)		(1,960)	
Liquidation of Baltijas Energosistemu Dispečeru Centrs BO SIA (DC Baltija)	(510)	(510)	-	-
Carrying amount as of December 31	**21,040**	**20,625**	**21,741**	**21,741**

7. Non-current accounts receivable

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

	Group 2007	Company 2007	Group 2006	Company 2006
Accounts receivable from VST AB*	1,507	1,507	7,810	7,810
Other receivables	745	745	955	955
Total	**2,252**	**2,252**	**8,765**	**8,765**
Less: current receivables (note 10)	(274)	(274)	(973)	(973)
Carrying amount	**1,978**	**1,978**	**7,792**	**7,792**

* In 2005 Lietuvos Energija AB decided to dispose 10 kV transmission equipment to VST AB, i.e.10 kV switchgears of 330 kV transformer substations in various transmission divisions. As of December 31, 2007 receivable under such transaction, amounting to LTL'000 1,507 (as of December 31, 2006 – LTL'000 7,810), is accounted under non-current accounts receivable. The amount will be repaid in equal installments up to the year 2013. Its current portion, amounting to LTL'000 267, and accrued interest of LTL'000 7 are accounted under other current receivables (see Note 10). The interest rate of this transaction approximates the market interest rate. The fair value of the non-current accounts receivable approximates their carrying amount.
Joint-stock company VST in advance (January 18, 2008) repaid the entire sum of the loan with the calculated interest.

8. Inventories

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

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

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

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

	Group 2007	Company 2007	Group 2006	Company 2006
Carrying amount as of January 1	**378**	**351**	**192**	**189**
Allowances for inventory for reporting period	264	205	405	378
Reversal of allowances for inventory	(160)	(160)	(219)	(216)
Carrying amount as of December 31	**482**	**396**	**378**	**351**

9. *Trade receivables*

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

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

The fair value of trade receivables approximates their carrying amount.

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

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

10. *Other current receivables*

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

	Group 2007	Company 2007	Group 2006	Company 2006
Deferred VAT receivable	2,961	2,961	836	836
Receivables for IT and telecommunication services	3,283	3,287	2,551	2,551
Current portion of non-current receivables (note 7)	281	281	973	973
VAT receivable	1,774	1,513	2,983	2,970
Receivables for connection of wind power stations	-	-	958	958
Loan for Geoterma	3,222	3,222	-	-
Other receivables	284	221	787	702
Carrying amount	**11,805**	**11,485**	**9,088**	**8,990**

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

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

The fair value of other current receivables approximates their carrying amount.

11. *Term deposits*

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

	Group 2007	Company 2007	Group 2006	Company 2006
Term deposit at Bank Snoras AB (LTL), annual interest rate – 4.1%, maturity – July 12, 2008	150	-	150	-
Carrying amount	**150**	**-**	**150**	**-**

The fair value of term deposits approximates their carrying amounts.

12. *Cash and cash equivalents*

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

	Group 2007	Company 2007	Group 2006	Company 2006
Cash at banks and on hand	12,307	9,915	3,839	908
Term deposit at bank Nordea Bank Finland Plc Lithuania's branch (LTL), annual interest rate – 5.15%, maturity – January 17, 2008.	1,000	-	-	-
Term deposit at bank Nordea Bank Finland Plc Lithuania's branch (LTL), annual interest rate – 5%, maturity – December 7, 2008.	360			
Term deposit at bank Snoras AB (LTL), annual interest rate - 3.425%, maturity – March 4, 2007	-	-	500	-
Overnight deposit at bank Hansabankas AB (LTL).	3,739	3,739	449	449
Overnight deposit at bank Hansabankas AB (EUR)	912	912	-	-
Carrying amount	**18,318**	**14,566**	**4,788**	**1,357**

13. *Share capital*

As of December 31, 2007 and 2006 the share capital of the Company amounted to LTL 689,515,435 and it was divided into ordinary 689,515,435 registered shares with the par value of one Litas each. All shares were fully paid. In 2007 the highest share price at the Stock Exchange session was LTL 5.958,40 per share, lowest – LTL 3.20 per share. The number of shareholders as of December 31, 2007 was 5.549.

Company shareholders were:

Shareholders	**2007 shares (Lt)**	**2007 Proc.**	**2006 shares (Lt)**	**2006 Proc.**
Lithuanian State, represented by Ministry of Economy of the Republic of Lithuania	665,400,833	96.50	665,891,508	96.57
Other	24,114,602	3.50	23,623,927	3.43
Total:	**689,515,435**	**100.00**	**689,515,435**	**100.00**

14. *Legal reserve*

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

At the end of 2007, two companies of the Group, Lietuvos Energija AB and Energetikos Pajėgos UAB had fully formed a legal reserve, which accounted for 10% of the share capital and amounted to LTL'000 68,952 and LTL'000 43 respectively.

15. Other reserves

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

Group	Capital reduction reserve (related to transfer of heavy fuel storage reservoirs)	Reserve for property, plant and equipment acquisitions	Revaluation reserve	Reserve for management and employee bonuses and sponsorship	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)	(3,588)	-	-	(3,612)
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	-	-	-	(2,160)	-		(2,160)
Balance as of December 31, 2007	**(63,777)**	**162,744**	**-**	**1,719**	**1,293,569**	**10,531**	**1,404,786**

Company	Capital reduction reserve (related to transfer of heavy fuel storage reservoirs)	Reserve for property, plant and equipment acquisitions	Revaluation reserve	Reserve for management and employee bonuses and sponsorship	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 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 December 31, 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 on January 1, 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 on April 20, 2006 it was agreed to form a reserve related to fixed assets.

16. Borrowings

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

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

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

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

The fair value of the borrowings approximates their carrying amount.

As of December 31, 2007 the Company had borrowings amounting to LTL'000 50,114 with a floating interest rate (weighted average – 5,3%) and borrowings amounting to LTL'000 39,707 with a fixed interest rate (weighted average – 4.8 per cent).

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 January 24, 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 May 12, 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. On September 1, 2007 under a contract UniCredit Bank from HVB-BAnk overtook all rights and obligations acquired through Bayerische Hypo und Vereinsbank AB Vilnius Branch.

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

17. Obligations under finance leases

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

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

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

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

18. Issued bonds

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

The fair value of the issued bonds as of December 31, 2007 was EUR'000 7,409 (LTL'000 25,608) (as of December 31, 2006 – EUR'000 7,544 (LTL'000 26,048).

19. Grants

For the years 2007 and 2006 ended December 31, 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	2,698	5,999	8,697
- grants used	(156)	(843)	(999)
Carrying amount			
As of December 31, 2006	**3,925**	**20,415**	**24,340**
- grants received	10,674	17,384	28,058
- grants used	(397)	(1,130)	(1,527)
Carrying amount as of December 31, 2007	**14,202**	**36,669**	**50,871**

Company	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**	**15,161**	**16,544**
- grants received	2,698	5,999	8,697
- grants used	(156)	(820)	(976)
Carrying amount			
As of December 31, 2006	**3,925**	**20,340**	**24,265**
- grants received	10,674	17,384	28,058
- grants used	(397)	(1,107)	(1,504)
Carrying amount			
As of December 31, 2007	**14,202**	**36,617**	**50,819**

The Group has received advance payments, which, upon meeting the contractual obligations by the Group, will be recognized as grants. These advance payments are accounted under trade and other payables (note 20). As of December 31, 2007 these advance payments amounted to LTL'000 18,883 (as of December 31, 2006 – LTL'000 14,366).

20. Trade and other payables

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

	Group 2007	Company 2007	Group 2006	Company 2006
Trade payables	156,283	145,304	140,551	135,258
Advances received	24,716	21,463	18,279	16,057
Deferred VAT payable	7,658	7,658	7,763	7,763
Payroll related liabilities	2,872	1,222	2,595	1,422
Vacation reserve	3,355	3,025	2,537	2,512
Property tax payable	2,145	2,145	2,087	2,087
Dividends payable	633	633	553	553
Other payables and current liabilities	920	814	766	681
Carrying amount	**198,582**	**182,264**	**175,131**	**166,333**

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

21. Income tax expense

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

	Group 2007	Company 2007	Group 2006	Company 2006
Components of the income tax expense				
Income tax (including social tax)	23,365	22,947	19,345	18,924
Deferred income tax benefit	(11,547)	(11,493)	(15,589)	(15,536)
Income tax expenses for the reporting period	**11,818**	**11,454**	**3,756**	**3,388**

(Continued on the following page)

21. Income tax expense (continued)

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

	Group 2007	Company 2007	Group 2006	Company 2006
Deferred income tax assets				
Impairment of Property, plant and equipment (deemed cost)	(189,442)	(189,442)	(198,167)	(198,167)
Allowances for doubtful receivables (Baltic Shem and Liberty)	(3,894)	(3,894)	(8,565)	(8,565)
Allowances for doubtful receivables (Ekranas AB)	(1,442)	(1,442)	(1,442)	(1,442)
Vacation reserve	(503)	(454)	(389)	(389)
Impairment of financial assets (will be recognized for tax purposes at the moment of disposal)	(409)	(409)	(326)	(326)
Recognition for tax purposes of capitalized finance costs previously written-off	(68)	(68)	(237)	(237)
Allowances for inventories to net realizable value	(59)	(59)	(53)	(53)
Total deferred income tax assets	**(195,817)**	**(195,768)**	**(209,179)**	**(209,179)**
Deferred income tax liabilities				
Increase in value of Property, plant and equipment (deemed cost)	376,861	376,696	399,582	399,440
Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress)	25,705	25,464	28,003	27,733
Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting	1,326	1,326	1,286	1,286
Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until December 31, 2007	2	2	5	5
Other (derivative financial instruments)	-	-	11	11
Total deferred income tax liabilities	**403,894**	**403,488**	**428,887**	**428,475**
Less: valuation allowance	409	409	326	326
Deferred income tax liabilities, net	**208,486**	**208,129**	**220,034**	**219,622**

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

(Continued on the following page)

21. Income tax expense (continued)

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

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

Group's changes of temporary differences were as follows:

	As of December 31, 2006	Charged (credited) to the income statement	As of December 31, 2007
Impairment of Property, plant and equipment (deemed cost)	(1,310,920)	47,971	(1,262,949)
Allowances for doubtful receivables (Baltic Shem and Liberty)	(51,909)	25,948	(25,961)
Allowances for doubtful receivables (Ekranas AB)	(9,612)	-	(9,612)
Vacation reserve	(2,512)	(843)	(3,355)
Impairment of financial assets (will be recognized for tax purposes at the moment of disposal)	(2,178)	(548)	(2,726)
Recognition for tax purposes of capitalized finance costs previously written-off	(1,396)	946	(450)
Allowances for inventories to net realizable value	(350)	(46)	(396)
Increase in value of Property, plant and equipment (deemed cost)	2,636,044	(123,636)	2,512,408
Carrying amount of assets acquired under investment exemption for tax purpose (excluding construction in progress)	184,306	(12,935)	171,371
Effect of application of different depreciation rates for property, plant and equipment in financial and tax accounting	8,577	260	8,837
Carrying amount of construction in progress acquired under investment exemption for tax purpose in 1998 - 2001 and not commissioned into operation until December 31, 2007	25	(9)	16
Other (derivative financial instruments)	63	(63)	-
Total temporary differences	**1,450,138**	**(62,955)**	**1,387,183**
Deferred income tax by applying 15% tax rate, net	**217,521**	**(9,443)**	**208,077**
Increase in deferred income tax due to effect of social tax	2,187	(2,187)	-
Total deferred income tax, net	**219,708**	**(11,630)**	**208,077**
Less: valuation allowance	326	83	409
Deferred income tax liabilities, after assessment	**220,034**	**(11,547)**	**208,486**

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

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

	Group 2007	Company 2007	Group 2006	Company 2006
Profit before tax	60,197	58,805	22,461	21,749
Tax at the income tax rate of 18% (2006: 19%)	10,835	10,585	4,268	4,132
Tax effect of items that are not deductible or taxable in determining taxable profit	983	870	(512)	(744)
Income tax expense	**11,818**	**11,454**	**3,756**	**3,388**
Effective income tax rate (%)	**20**	**20**	**17**	**16**

22. *Business and geographical segments*

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

2007	Business segments						
	Electricity transmission	Electricity trade	Electricity generation	Electricity export	Nuclear power	Design and repair services	Total
Income	**385,754**	**636,467**	**91,061**	**295,547**	**-**	**73,126**	**1,481,955**
Incl. internal turnover among Company segments	*29,251*	*42,047*	*91,061*	*135,752*	-	-	*298,111*
Income after elimination of internal turnover among Company segments	356,503	594,420	-	159,795	-	73,126	1,183,844
Incl. internal turnover among Group companies	-	-	-	-	-	*7,038*	*7,038*
Income after elimination of internal turnover among Group companies	**356,503**	**594,420**	**-**	**159,795**	**-**	**66,088**	**1,176,806**
Expenses	**347,336**	**631,368**	**84,351**	**277,845**	***3,589***	***71,448***	**1,415,937**
Incl. internal turnover among Company segments	*39,892*	*170,732*	*45,771*	*41,726*	-	-	*298,121*
Expenses after elimination of internal turnover among Company segments	307,444	460,636	38,580	236,119	3,589	71,448	1,117,816
Incl. internal turnover among Group companies	*93*	-	-	-	-	*6,915*	*7,008*
Expenses after elimination of internal turnover among Group companies	**307,351**	**460,636**	**38,580**	**236,119**	**3,589**	**64,533**	**1,110,808**
Break-down of significant items of expenses:							
Electricity purchase, purchase of capacity reserve, transmission, regulation and balancing expenses	129,276	629,834	45,769	277,350	-	-	1,082,229
Repair and maintenance expenses	33,299	36	5,056	29	-	3,491	41,911
Depreciation and amortization	119,241	136	16,300	11	-	1,954	137,642
Wages, salaries, social insurance and accrued vacation reserve	41,081	466	8,566	361	184	22,897	73,555
Taxes other than income tax	3,453	15	6,580	15	-	261	10,324
Communications and IT expenses	4,691	591	91	11	-	316	5,700
Utilities	1,284	3	84	3	-	381	1,755
Subcontractors	-	-	-	-	-	29,545	29,545
Production materials expenses	-	-	-	-	-	9,684	9,684
Research and development	2,205	200	123	-	181	2,652	5,361
Other	12,806	87	1,782	65	3,224	267	18,231
Profit (loss) from ordinary activities (before elimination of internal turnover)	**38,418**	**5,099**	**6,711**	**17,702**	**(3,589)**	**1,678**	**66,019**
Elimination of internal turnover							(21)
Profit (loss) from ordinary activities (after elimination of internal turnover)							**65,998**
Segment's assets	2,186,341	43,048	421,708	11,475	-	55,772	2,718,344
Unallocated assets	-	-	-	-	-	-	46,139
Segment's liabilities	15,149	62,072	1,770	18,514	-	18,415	115,920
Unallocated liabilities	-	-	-	-	-	-	436,195
Capital additions	164,224	-	2,974	-	-	1,989	169,187
Unallocated capital additions	-	-	-	-	-	-	936
Depreciation and amortization	119,241	136	16,300	11	-	1,954	137,642
Unallocated depreciation and amortization	-	-	-	-	-	-	9,910
Impairment losses recognized in profit or loss	1,250	-	(1)	-	-	86	1,335
Unallocated impairment losses recognized in profit or loss							547

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22. Business and geographical segments (continued)

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

2006	Business segments						
	Electricity trans-mission	Electricity trade	Electricity generation	Electricity export	Nuclear power	Design and repair services	Total
Income	**363,117**	**505,078**	**66,327**	**256,026**	**-**	**46,002**	**1,236,550**
Incl. internal turnover among Company segments	*23,435*	*25,271*	*66,327*	*136,609*	-	-	*251,642*
Income after elimination of internal turnover among Company segments	339,682	479,807	-	119,417	-	46,002	984,908
Incl. internal turnover among Group companies	-	-	-	-	-	*4,642*	*4,642*
Income after elimination of internal turnover among Group companies	**339,682**	**479,807**	**-**	**119,417**	**-**	**41,360**	**980,266**
Expenses	**323,178**	**519,530**	**64,605**	**248,158**	**2,187**	**44,871**	**1,202,529**
Incl. internal turnover among Company segments	*34,587*	*157,450*	*28,289*	*31,329*	-	-	*251,655*
Expenses after elimination of internal turnover among Company segments	288,591	362,080	36,316	216,829	2,187	44,871	950,874
Incl. internal turnover among Group companies	*2,226*	-	-	-	-	*2,397*	*4,623*
Expenses after elimination of internal turnover among Group companies	***286,365***	***362,080***	***36,316***	***216,829***	***2,187***	***42,474***	***946,251***
Break-down of significant items of expenses:							
Electricity purchase, purchase of capacity reserve, transmission, regulation and balancing expenses	102,894	514,601	28,289	247,682	-	-	893,466
Repair and maintenance expenses	27,009	35	5,421	35	-	1,717	34,217
Depreciation and amortization	134,667	507	15,859	15	-	1,970	153,018
Wages, salaries, social insurance and accrued vacation reserve	36,953	433	8,560	323	146	19,041	65,456
Taxes other than income tax	3,400	16	6,497	15	-	256	10,184
Communications and IT expenses	4,853	653	90	7	-	231	5,834
Utilities	1,157	2	123	3	-	202	1,487
Subcontractors	-	-	-	-	-	10,547	10,547
Production materials expenses	-	-	-	-	-	8,777	8,777
Research and development	1,385	290	65	-	657	-	2,397
Other	10,860	2,993	(299)	78	1,384	2,130	17,146
Profit (loss) from ordinary activities (before elimination of internal turnover)	**39,939**	**(14,452)**	**1,722**	**7,868**	**(2,187)**	**1,131**	**34,021**
Elimination of internal turnover							(6)
Profit (loss) from ordinary activities (after elimination of internal turnover)							**34,015**
Segment's assets	2,128,936	50,662	435,755	2,098	-	35,749	2,653,200
Unallocated assets	-	-	-	-	-	-	57,069
Segment's liabilities	14,689	57,198	1,914	10,479	-	10,241	94,521
Unallocated liabilities	-	-	-	-	-	-	443,617
Capital additions	141,360	-	5,960	-	-	2,294	149,614
Unallocated capital additions	-	-	-	-	-	-	3,439
Depreciation and amortization	134,667	507	15,859	15	-	1,970	153,018
Unallocated depreciation and amortization	-	-	-	-	-	-	8,540
Impairment losses recognized in profit or loss	2,726	2,831	(36)	-	-	92	5,613
Unallocated impairment losses recognized in profit or loss	-	-	-	-	-	-	416

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22. Business and geographical segments (continued)

Secondary reporting format is geographical segments. The Company exports electricity to Russia and EU countries. During 2007 the Company exported 1.9 bn kWh (in 2006 – 1,7 bn kWh) of electricity and earned MLTL 137,5 from electricity exports (in 2006 – MLTL 78.2). In addition to that, the Group exported metal structures and repair services.

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

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

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

23. Other income

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

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

24. Other expenses

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

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

25. *Other gains (losses)*

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

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

26. *Related party transactions*

Sales and purchases of the goods and services:

As of December 31, 2007 and during the year ended December 31, 2007, the Group's related party transactions consisted of the following:

Related parties	Accounts payable	Accounts receivable	Purchases	Sales
Parties related to Ministry of Economy of the Republic of Lithuania	48,614	53,993	429,268	499,160
Associates	786	3,446	11,369	345
Total	**49,400**	**57,439**	**440,637**	**499,505**

As of December 31, 2007 and during the year ended December 31, 2007 the Company's related party transactions consisted of the following:

Related parties	Accounts payable	Accounts receivable	Purchases	Sales
Parties related to Ministry of Economy of the Republic of Lithuania	48,601	51,564	429,156	485,949
Subsidiaries	1,489	12	7,472	409
Associates	786	3,256	11,369	118
Total	**50,876**	**54,832**	**447,997**	**486,476**

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

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

26. Transactions with related parties (continued)

Compensation to key management personnel

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

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

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

27. Earnings per share

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

	2007	2006
Net profit attributable to equity holders of the Company	48,378	18,705
Weighted average number of shares	689,515,435	689,515,435
Earnings per share (LTL)	**0.07**	**0.03**

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

	Group December 31, 2007	Company, December 31, 2007	Group December 31, 2006	Company, December 31, 2006
Financial assets	153,621	133,096	117,592	106,264

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

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

Neither the Group nor the Company has 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.

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29. *Financial risk management (continued)*

Ratings of the banks issued by international rating agency Fitchratings:

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

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

Bank	Long-term credit rating	Short-term credit rating
Hansabank Group	A1	P-1
Nordea Bank Finland Plc. , Lithuanian Branch	Aa1-	P-1

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

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

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

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

The following table details the Group's and Company's contractual maturity for their non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

The Group	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of December 31, 2007				
Borrowings and bonds	2,022	45,182	40,595	2,022
Obligations under finance leases	118	-	-	-
Trade and other payables	198,582	-	-	-
As of December 31, 2006				
Borrowings and bonds	20,581	5,085	69,943	21,308
Obligations under finance leases	263	119	-	-
Trade and other payables	175,131	-	-	-

(Continued on the following page)

29. Financial risk management (continued)

The Company	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of December 31, 2007				
Borrowings and bonds	2,022	45,182	40,595	2,022
Trade and other payables	182,264	-	-	-
As of December 31, 2006				
Borrowings and bonds	20,581	5,085	69,943	21,308
Trade and other payables	166,333	-	-	-

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

As of 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.

Market risk

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

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

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

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

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

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

If in 2007 the interest rates on the Group and the Company's borrowings were higher by 1 basis point, the net profit of the Group and the Company would have decreased by 0,7% (in 2006 – 2,7%). If in 2007 the interest rates on the Group and the Company's borrowings were lower by 1 basis point, the Group's and the Company's net profit would have been higher by 0,7% (in 2006 – 2,7%).

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

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

The Group's companies have no significant concentration of foreign exchange risk; therefore, it did not use any financial instruments facilitating control over the foreign exchange risk in 2007 and in 2006.

(Continued on the following page)

29. Financial risk management (continued)

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

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

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

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

Risk of security prices
The Group's companies have not acquired any securities (shares, bonds, etc.) for trading 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 at acquisition cost in the financial statements of the Company which is adjusted by impairment losses, if any. Investments in associates in Group's consolidated financial statements are accounted using the equity method by adjusting their carrying amounts by the share of the profits or losses attributable to the Group. The increase / decrease in the carrying amount of these investments directly impact the financial results of the Group'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. March 15, 2014 and September 15, 2014 respectively.

As of December 31, 2007 bank Hansabankas AB issued the following guarantees:
1. Beneficiary - Vilnius Municipality, amount - LTL'000 16, type - performance security, maturity - December 2, 2009;
2. Beneficiary – Vilniaus Universitetas, amount – LTL'000 16, type – bid security, maturity – February 14, 2008;
3. Beneficiary – Ministry of Environment of the Republic of Lithuania, Agency of Environmental Project Management, amount – LTL'000 2112, type – advance payment security, maturity – September 30, 2008;
4. Beneficiary – Ministry of Environment of the Republic of Lithuania, Agency of Environmental Project Management,, amount – LTL'000 422, type – performance security, maturity – September 30, 2008;

In 2007 Nordea Bank Finland Plc. Lithuanian Branch issued the following guarantees, which were valid as of December 31, 2007:
1. Beneficiary - Fabryka Kotlow RAFAKO S.A., amount - EUR 55,838 (LTL 192,798), type - performance security, maturity – October 1, 2008;
2. Beneficiary – Fabryka Kotlow RAFAKO S.A., amount - EUR 56,756 (LTL 195,966), type - performance security, maturity – March 30, 2009.
3. Beneficiary – Fabryka Kotlow RAFAKO S.A., amount – EUR 58,168 (LTL 200,842.47), type – performance security, maturity – October 15, 2009.

31. Subsequent events

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

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

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

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

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